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The Impact of the 1976 Income Tax Amendment on U.S. and Canadian TV Broadcasters

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AN EXAMINATION OF THE FINANCIAL IMPACTS OF CANADA'S 1976 AMENDMENT TO SECTION 19.1 OF THE INCOME TAX ACT (BILL C-58) ON U.S. AND CANADIAN TV BROADCASTERS

EXAMEN DES RÉPERCUSSIONS FINANCIÈRES DE L'AMENDEMENT APPORTÉ EN 1976 AU PARAGRAPHE 19.1 DE LA LOI DE L'IMPÔT SUR LE REVENU (C-58) SUR LES TÉLÉDIFFUSEURS DES ÉTATS-UNIS ET DU CANADA

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PREFACE

This report is an abridged version of the economic study prepared by Donner and Lazar Research Associates with assistance from Michel Lafontaine, Tamec Inc. for the Department of Communications and is available to the public upon request. An Executive Summary of the report, in French, begins on page vii. Confidential financial data gathered under terms of the Statistics Act has been excluded from this report as disclosure of such information is prohibited under section 16 of the said Act. Throughout this report, the Department has added emphasis to the key conclusions and policy issues to facilitate a rapid review of the contents.

The authors wish to extend their appreciation to the many individuals in the broadcasting, production, advertising, and cable sectors in both Canada and the U.S.A. who graciously gave their time to assist in the preparation of this study. The authors gratefully acknowledge the assistance of the officials at the Canadian Radio-television and Telecommunications Commission and at the Department of Communications, particularly Mr. Michael M. Tiger of the Broadcasting Policy Division in the Department who prepared this abridged version.

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PRÉFACE

Le rapport contenu dans les pages qui suivent est un abrégé de l'étude économique préparée pour le compte du ministère des Communications par Donner and Lazar Research Associates, assisté de Michel Lafontaine, Tamec Inc.; le public peut l'obtenir sur demande. Le rapport a été rédigé en anglais. Un résumé en français se trouve à la page vii. Les données financières confidentielles recueillies en conformité de la Loi sur la statistique n'y figurent pas, l'article 16 de la loi susmentionnée en interdisant la divulgation. Tout au long du rapport, le Ministère a mis l'accent sur les conclusions et les questions de politique fondamentales, afin de faciliter la compréhension rapide de sa teneur.

Les auteurs tiennent à remercier toutes les personnes des secteurs de la radiodiffusion, de la réalisation, de la publicité et de la câblodiffusion, du Canada et des États-Unis, qui ont généreusement prêté leur temps et leur concours à la préparation du présent rapport. Ils sont aussi reconnaissants aux fonctionnaires du Conseil de la radiodiffusion et des télécommunications canadiennes et du ministère des Communications pour l'aide qu'ils leur ont fourni, et plus particulièrement envers M. Michael M. Tiger de la Division des politiques de radiodiffusion du Ministère auquel ils doivent la présente version abrégée de leur rapport.

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EXECUTIVE SUMMARY/RÉSUMÉ

EXECUTIVE SUMMARY

The primary purpose of this study was to estimate the financial impact of Canada's Bill C-58 on the Canadian placed advertising expenditures on U.S. border TV stations. Bill C-58, an amendment to section 19.1 of the Income Tax Act, was passed by Parliament in March 1976 and proclaimed on September 22, 1976. It disallowed the deduction of Canadian advertising expenditures in foreign countries as a legitimate Canadian tax expense item if such advertising was directed primarily to a market in Canada. However, it did not affect television commercials directed primarily to foreign markets. Although there was a grandfather clause in existence which somewhat delayed its complete effect until September of 1977, the new Bill sharply reduced the flow of Canadian advertising expenditures to the U.S. border TV stations in 1977 and 1978.

The primary questions posed in this study were the following:

1. What happened to the flow of gross Canadian advertising revenues to the U.S. border TV broadcasters between 1975 and 1978?

2. Of the apparent decline in the U.S. revenues from Canadian sources, what proportion or amount could be attributed to Bill C-58, or to other factors - such as the CRTC's commercial deletion policies, simulcasting in Canada, Canada's AIB program, general economic events in both countries, the substitution of alternate U.S. signals on Canadian cable systems, and the licensing of new stations in Canada?

3. Of the Bill C-58 advertising expenditure losses to the border stations, what amount was actually repatriated back to the Canadian TV broadcasting system?

In the process of completing this project, the study was broadened to include a review of alternative Canadian policy actions which were also designed to repatriate Canadian advertising expenditures. As well the study includes an assessment of the main effects of the Bill (and some of the alternative policy proposals) and evaluates these alternative measures to see if these policies are consistent with the authors' interpretation of the spirit and intent of the 1968 Broadcasting Act. Finally, detailed estimates are provided of the financial impact of Bill C-58 on the principal TV broadcasters in Canada and the U.S.

It should be noted that one of the interrelated criticisms of the Bill was that it was imposed when there existed an already tight TV availability situation in Canada, and instead of resulting in more Canadian jobs, the repatriated advertising expenditures (primarily from Buffalo and Bellingham) resulted in acceleration of the costs of advertising in Canada, a squeezing out of advertising by the major Canadian national firms from smaller markets in Canada, and an unnecessarily costly bidding for U.S. syndicated shows.

The essence of this important criticism is that while KVOS-TV (Wometco) in Bellingham, Washington and the three major Buffalo broadcasters had been adversely affected by the impact of Bill C-58, in fact Canada was not a net gainer of funds in that the border broadcasting losses were made up by the higher prices earned by the Hollywood producers for their products

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sold to Canada. That is, Bill C-58 allowed the Canadian TV broadcasters to play the role of a conduit for funds from the Buffalo and Bellingham broadcasters to the Hollywood syndicate producers. This criticism is fully explored and refuted in the concluding chapter of this report.

To place the revenue figures in some perspective, in 1975 gross Canadian placed advertising on the U.S. border TV stations amounted to anywhere from \$18.9 to \$21.5 million expressed in the U.S. currency. Based on the higher aggregate figure, the Buffalo stations attracted about \$9.5 million, KVOS Bellingham about \$6.7 million, while the remaining U.S. broadcasters attracted about \$5.3 million. By 1977, Buffalo's Canadian revenues were estimated to have declined to \$5.1 million, KVOS revenues in Bellingham to about \$3.4 million, while other U.S. markets are estimated to have declined to about \$2 million. Thus, one estimate places the decline of Canadian placed advertising on U.S. border stations from about \$21.5 million in 1975 to about \$10.5 million in 1977. This study estimates that Canadian expenditures on border stations declined further in 1978, to a total of about \$6.5 million. Thus, the figures compiled by the authors indicate that a sharp decline in Canadian placed advertising had occurred after 1975.

Additionally, the estimated decline is far sharper if one allows for some potential growth in such expenditures from the 1975 level of Canadian expenditures. On that basis, the study estimates that the \$21.5 million estimated placement in 1975 could have increased to somewhere between \$24.9 and \$29.7 million by 1977, and between \$26.5 and \$32.6 million in 1978. Viewed in the context of potential growth, the Canadian revenue losses were far more significant for the border TV stations than the simple differences between 1975 and estimated 1978 levels of Canadian expenditures.

The estimating problem the authors faced, then, was to allocate these apparent 1978 adjusted losses to U.S. TV border stations to losses due to Bill C-58, and impacts or losses due to other special factors occurring between 1975 and 1978.

A capsule review of these other special effects is set out below:

(a) Commercial deletion - The border revenue effects from this policy primarily occurred prior to the introduction of Bill C-58. Nevertheless, commercial deletion has had a cumulative negative effect on Canadian advertising on U.S. border stations. In this study, for reasons outlined in the report, commercial deletion was assumed to have had no appreciable effect on the post-1976 Canadian flow of advertising expenditures to the U.S.

(b) Simulcasting, the policy of substituting a Canadian TV signal for a U.S. signal when a common U.S. originating show is being aired, has in essence increased the gross rating points available to advertisers in Toronto and other Canadian cities. The shows which are simulcast are U.S. network shows, which normally do not carry Canadian commercials out of the U.S. border stations. Simulcasting has increased the revenue flows to some Canadian stations, and indeed some Canadian stations deliberately set their schedules to maximize the revenue gains flowing from simulcasting. While substantial revenue flows are involved, there has

not been any recent increase in the aggregate number of hours devoted to simulcasting in Canada. Consequently, the authors concluded that simulcasting per se has not generated any special revenue gains to the Toronto based stations since 1976.

(c) Canada's AIB - The 1975-78 impact of the Anti-Inflation Board on Canadian revenues of major firms and their advertising practices was reviewed in the study. It was noted that other economic effects were at work as well at the same time the AIB was in effect, and on the cost-price front there was a particularly steep rise in the cost of imported U.S. syndicated programs to Canadian TV broadcasters. The data and the interviews pinpointed a series of offsetting effets on costs and prices which could be traced to the AIB program. The authors concluded that the AIB could be safely ignored in terms of generating an estimate of the repatriation of Canadian advertising dollars flowing to the U.S. border TV stations.

(d) General Economic Events - The profile of growth of the Canadian and U.S. economies affected TV advertising expenditures in both countries and consequently should have affected cross-border avertising flows from Canada to the U.S. Involved in the incremental impacts here were advertising time costs and the prime-time availabilities in both Canada and the U.S. Among some special factors at work were a series of strong advertising time demand pressures in the U.S. in 1976, while the weak Canadian economy in 1977 did in effect play a part in reducing the advertising expenditures by Canadian based companies generally, and on the U.S. border TV stations in particular. Thus, a sluggish Canadian economy participated in the repatriation of some Canadian advertising back to the Canadian stations.

(e) Substitution of Alternate Regional U.S. Signals on Canadian Cable - The switching of U.S. imported signals by Ottawa Cablevision Ltd., from the original source in Watertown, Plattsburgh and Utica to Rochester signals, where there is a viable, local market has reduced the competitive advantage of this border market in seeking and obtaining Canadian TV advertising. This leapfrogging strategy has already been successful, and has resulted in about a $1 million (annual) repatriation of Canadian advertising formerly placed in that market.

(f) Licensing of New Stations in Canada - The number of Canadian broadcasters has increased in major Canadian markets in recent years - through the addition of CKGN and CITY in Toronto, CKVU in Vancouver, CKND in Winnipeg and CITV in Edmonton. By further fragmenting the existing Canadian markets, these new Canadian outlets reduced the reach of both existing Canadian broadcasters and border TV stations into the Canadian markets. While the additional fragmentation of the Canadian market has hurt the U.S. broadcasters selling advertising time in Canada, the increased cable coverage in Canada since 1975 has helped them to some degree. The net effets can only be evaluated on a market by market approach, and this was taken into account in the final estimate of the Bill C-58 impact and repatriation of funds.

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Tables 2 through 6 in the text summarize the key financial estimates of the impact of Bill C-58 both on U.S. and Canadian TV broadcasters. These are provided in both U.S. and Canadian dollars, since there were some rather substantial shifts in the U.S. value of the Canadian dollar between 1975 and 1978.

To return to the main theme of this summary statement, actual gross Canadian advertising expenditures (expressed in U.S. currency) were estimated to have declined from $21.5 million in 1975 to $10.5 million in 1977 and $6.5 million in 1978. If reasonable growth had continued in the various U.S. border TV markets, Canadian expenditures would have reached between $24.9 and $29.7 million in 1977 and $26.5 and $32.6 million in 1978. Thus, the estimated losses of Canadian advertising revenues to the U.S. border TV stations ranged between $14.4 million to $19.2 million in 1977 and $20 million to $26.1 million in 1978. (Table 2)

The actual repatriation of funds to Canada was less than the losses to U.S. border stations because of commission payments and the corporate tax system. Assuming one probable growth scenario - and an average 45% corporate tax rate in both countries, the estimated repatriation (in U.S. currency) was $12.4 million in 1977 and $16.6 million in 1978. The Canadian dollar measure of the repatriation of funds is higher, $13.2 million and $18.6 million respectively in 1977 and 1978. (See tables 3 and 4)[1]

If one accepts an effective 45% corporate tax rate in both Canada and the U.S., a rough approximation of the financial winners and losers resulting from Bill C-58 can be made. In this exercise, it is assumed that the Canadian advertisers would invest the same amount of after-tax advertising funds whether or not Bill C-58 was in effect. If one ignores time availabilities and cost shifts, the advertisers end up in an indifferent position. But in the process, of course, they have reduced their advertising expenditures on U.S. border stations and have repatriated the bulk of their expenditures back to the Canadian TV broadcasting system.

Expressed in Canadian currency, the U.S. broadcasters' potential losses of air time sales amounted to about $20.4 million in 1977 and $29.2 million in 1978. Adjusting these sales losses for commissions payments and tax payments, the U.S. broadcasters see their corporate after-tax income position deteriorate by $8.9 million in 1977 and $12.8 million in 1978.

The Canadian advertising agencies find their commission flows reduced by the Bill, and with tax adjustments, their after-tax income declines $0.4 million in 1977 and $0.7 million in 1978.

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[1] The report presents in some detail the argument that the accompanying figures reflect maximum potential repatriation.

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Bill C-58 results in higher revenue flows to the Canadian broadcasters sales, $16.2 million in 1977 and $23.2 million in 1978. After deducting their commission payments and extra taxes, their after-tax income is strengthened by $7.2 million in 1977 and $10.2 million in 1978.

One final comment - these figures must be treated with caution as a wide number of estimates and fairly heroic assumptions were required to generate the financial impact figures. But, while the specific accuracy is subject to a series of estimating errors, the total thrust of these projections suggests that the Canadian broadcasters have significantly gained in revenues as a result of Bill C-58, and the Canadian advertising agencies have seen their commission flows marginally contract because of the repatriation of advertising to Canada.

According to these figures, station KVOS in Bellingham and the three major Buffalo broadcasters felt the financial effects of the Bill. However, as anticipated, the Buffalo stations have already recouped some of their losses by attracting additional local U.S. advertising to their stations.

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FINANCIAL EFFECTS OF BILL C-58 - SUMMARY STATEMENT

U.S. Gross Advertising Revenue Losses (U.S. Currency)

1. Estimated actual changes in Canadian placed advertising expenditures from $21.5 million in 1975 to $6.5 million by 1978.

2. Allowing for potential growth in expenditures from 1975 to 1978, potential Canadian expenditures in 1978 ranged between $26.5 million and $32.6 million. Thus, 1978 estimated potential losses to U.S. broadcasters ranged between $20 million and $26.1 million (source: Table 2).

Estimated Possible Repatriation in 1978 (Canadian Currency)

1. When allowance is made for the 1975 to 1978 growth potential, and assuming an effective 45% corporate tax rate in both countries, repatriation is estimated at $18.6 million in 1978.

2. Repatriation, excluding the growth adjustment, amounts to $8.6 million.

3. Based on the growth assumption, the advertising revenue gains were shared as follows among the local Canadian broadcasters in 1978.

Toronto	- $7.7 million[(1)]	Ottawa	- $1.0 million
Vancouver	- $5.7 million	Winnipeg	- $2.1 million
Montreal	- $2.0 million		

1978 Estimated Winners & Losers As a Result of Bill C-58 - Maximum Effects (Canadian Currency)[(2)]

U.S. Broadcasters - Their 1978 pre-tax income declined by $23.4 million; their after-tax income declined by $12.8 million (Cdn $).

Canadian Advertising Agencies - In 1978, their estimated commission revenues fell by $1.2 million as a result of Bill C-58. Their after-tax income decline was about $0.7 million.

Canadian Broadcasters - Air time sales increased by $23.2 million in 1978, which translates roughly into a $18.6 million gain in pre-tax income and a $10.2 million gain in after-tax income.[(2)]

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(1) Source: Table 4.

(2) Source: Table 6.

THE IMPACT OF THE 1976 INCOME TAX AMENDMENT

ON U.S. AND CANADIAN TV BROADCASTERS

LES RÉPERCUSSIONS DE L'AMENDEMENT APPORTÉ EN 1976

À LA LOI DE L'IMPÔT SUR LE REVENU SUR LES

TÉLÉDIFFUSEURS DES ÉTATS-UNIS ET DU CANADA

RÉSUMÉ

La présente étude a pour principal objet d'apprécier les répercussions financières de la Loi C-58 sur les dépenses engagées pour de la publicité canadienne faite par des stations de télévision américaines le long de la frontière. Cette loi, promulguée par le Parlement en septembre 1976, modifie le paragraphe 19.1 de la Loi de l'impôt sur le revenu. Elle interdit la déduction, au Canada, des dépenses engagées pour de la publicité essentiellement dirigée vers un marché canadien et faite par une station étrangère, mais elle ne vise pas les annonces principalement destinées aux marchés étrangers. Même si une clause d'exception a empêché l'application intégrale de cette nouvelle loi avant septembre 1977, celle-ci a sensiblement réduit le mouvement des dépenses publicitaires canadiennes vers les stations frontalières de télévision des États-Unis, en 1977 et en 1978.

L'étude aborde les questions primordiales suivantes:

1. Quelle a été la tendance du mouvement des recettes brutes que la publicité canadienne a procurées aux télédiffuseurs frontaliers des États-Unis entre 1975 et 1978?

2. En ce qui a trait à la réduction apparente des recettes de sources canadiennes aux États-Unis, quelle proportion ou montant en est attribuable à la loi C-58 ou à d'autres causes comme les politiques canadiennes sur la suppression des annonces publicitaires et la diffusion simultanée, le programme de la commission de lutte contre l'inflation, la conjoncture économique des deux pays, la substitution de signaux correspondants à certains signaux américains sur les réseaux de câblodiffusion du Canada et la délivrance de licences à de nouvelles stations canadiennes?

3. Des sommes qui étaient versées pour la publicité par des stations frontalières, quel montant a réellement été réinvesti dans le réseau canadien de télévision?

Pour parachever ce projet, la portée de l'étude a été augmentée afin d'inclure un examen d'autres politiques canadiennes visant aussi à ramener au pays les dépenses publicitaires canadiennes confiées à des stations étrangères. En outre, l'étude contient une évaluation des principales incidences de la loi C-58 (et de certains des projets de politique possibles) et elle soupèse ces mesures afin de voir si elles sont conformes à l'interprétation que les auteurs font de l'esprit et du contenu de la Loi sur la radiodiffusion de 1968. Enfin, elle renferme des prévisions détaillées des répercussions financières de la loi C-58 sur les principaux télédiffuseurs du Canada et des États-Unis.

Il importe de noter que l'une des critiques corrélatives formulées concernant la loi C-58 soutient que celle-ci a été promulguée à un moment où le temps d'antenne à vendre à la télévision ne suffisait déjà pas à la demande au Canada. Par conséquent, au lieu de créer de l'emploi pour les Canadiens, le rapatriement des dépenses publicitaires qui étaient auparavant confiées principalement aux stations de Buffalo et de Bellingham, a entraîné une escalade du coût de la publicité au Canada, un abandon des petits marchés publicitaires par les grandes compagnies canadiennes et un renchérissement inutilement coûteux pour l'achat des émissions américaines souscrites.

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Cette critique importante repose sur le fait que KVOS Bellingham et les trois principaux radiodiffuseurs de Buffalo ont essuyé les répercussions défavorables de la loi C-58 sans pour autant que cette loi ne soit entièrement profitable pour le Canada, les montants recouvrées des radiodiffuseurs frontaliers étant absorbés par la majoration des prix demandés par les réalisateurs d'Hollywood pour leurs émissions. En l'occurrence, la loi C-58 permet simplement aux radiodiffuseurs canadiens de canaliser les fonds recouvrés des radiodiffuseurs de Buffalo et de Bellingham vers les réalisateurs d'émissions souscrites d'Hollywood.

L'examen de ces recettes dans leur contexte révèle qu'en 1975, les dépenses brutes engagées pour de la publicité canadienne faite par des stations de télévision américaines le long de la frontière variaient de 18,9 à 21,5 millions de dollars, en devise américaine. La ventilation du plus élevé de ces deux montants se présente comme suit: les stations de Buffalo ont attiré environ 9,5 millions de dollars, KVOS Bellingham, approximativement 6,7 millions de dollars et les autres radiodiffuseurs des États-Unis, environ 5,3 millions de dollars. En 1977, les recettes de provenance canadienne n'atteignaient plus que 5,1 millions de dollars dans le cas des stations de Buffalo, 3,4 millions de dollars approximativement en ce qui concerne KVOS Bellingham et quelque 2 millions de dollars sur les autres marchés américains. On constate donc que les placements publicitaires canadiens auprès de stations frontalières américaines ont baissé des quelques 21,5 millions de dollars qu'ils totalisaient en 1975 à environ 10,5 millions de dollars en 1977. Les données recueillies au cours de l'étude laissent supposer que ces investissements ont continué de baisser en 1978, jusqu'aux environs de 6,5 millions de dollars. Les chiffres colligés par les auteurs indiquent donc une récession de la publicité canadienne confiée à l'étranger après 1975.

Compte tenu de la croissance normale qu'auraient subie ces dépenses depuis 1975, la baisse des investissements publicitaires aux États-Unis est effectivement beaucoup plus forte. En effet, les données recueillies portent à croire que les placements publicitaires qui s'élevaient à 21,5 millions de dollars en 1975 seraient passés entre 24,9 et 29,7 millions de dollars en 1977 et entre 26,5 et 32,6 millions de dollars en 1978. Il est donc clair que les pertes subies par les stations de télévision frontalières dépassent beaucoup l'écart entre les dépenses canadiennes en 1975 et leur niveau estimatif pour 1978.

La tâche des auteurs consistait donc à classer les pertes apparentes des stations frontalières américaines, rajustées au niveau de 1978, en pertes causées par la loi C-58 et pertes dues à d'autres facteurs particuliers entrés en jeu entre 1975 et 1978.

Voice une brève revue de ces facteurs.

(a) Suppression des annonces publicitaires - Les répercussions de cette politique sur le revenu des stations frontalières ont commencé à se faire sentir avant l'introduction de la loi C-58. Néanmoins, la suppression des annonces publicitaires a eu des conséquences néfastes cumulatives sur les annonces faites par des stations frontalières des États-Unis mais dirigées vers un marché canadien. La présente étude avance que la suppression des annonces n'a pas influée sensiblement sur le volume des investissements faits aux États-Unis après 1976 pour de la publicité intéressant les Canadiens.

(b) Diffusion simultanée - La diffusion simultanée, c'est-à-dire la politique consistant à substituer un signal de télévision d'origine canadienne à un signal américain lorsqu'une même émission américaine est transmise, a fondamentalement augmenté les points d'évaluation (GRP) des annonceurs des stations de Toronto et d'autres stations canadiennes de télévision. Les émissions diffusées simultanément proviennent des réseaux américains et sont diffusées par des stations frontalières qui, en règle générale, ne font pas d'annonces publicitaires canadiennes. La diffusion simultanée a augmenté les apports de recettes à certaines stations du Canada et il est indéniable que des stations canadiennes établissent délibérément leur programmation de manière à accroître le plus possible les revenus que leur procure la diffusion simultanée. Toutefois, en dépit des sources de revenus considérables que cette pratique met à portée de la main, aucune augmentation du nombre total d'heures consacrées à la diffusion simultanée au Canada n'a été constatée dernièrement. Les auteurs du rapport en concluent que la diffusion simultanée en soi n'a pas donné lieu à un supplément particulier de revenus pour les stations de Toronto depuis 1976.

(c) Programme de la CLI - L'étude aborde les répercussions du programme de la Commission de lutte contre l'inflation sur les recettes de source canadienne des principales entreprises et sur les pratiques publicitaires de celles-ci. Elle note que d'autres facteurs économiques ont conjugué leur incidence à celle du programme de lutte contre l'inflation tandis que, sur le plan du prix de revient, les télédiffuseurs canadiens ont dû faire face à une hausse particulièrement rapide du prix des émissions souscrites réalisées aux États-Unis. Les renseignements en mains et les entrevues soulignent une série de mouvements neutralisants des coûts et des prix, attribuable au programme de lutte contre l'inflation. Les auteurs concluent qu'on peut sans crainte faire abstraction de la CLI pour dresser un état estimatif du recouvrement des montants versés à des stations américaines le long de la frontière, pour de la publicité canadienne.

(d) Conjoncture économique - La courbe de croissance de l'économie du Canada et des États-Unis a influé sur les dépenses au titre de la publicité télévisée dans ces deux pays et devrait par conséquent avoir modifié les mouvements publicitaires transfrontaliers du Canada vers les États-Unis. Les coûts du temps d'annonce et la disponibilité de temps d'antenne pendant les principales heures d'écoute ont favorisé les tendances inflationnistes notées tant au Canada qu'aux États-Unis. Des facteurs inhabituels sont entrés en ligne de compte, notamment les pressions exercées aux États-Unis en 1976 en vue d'obtenir du temps d'annonce et la faiblesse de l'économie canadienne en 1977 qui, de fait, a incité les compagnies canadiennes dans leur ensemble à réduire leurs dépenses publicitaires, en particulier celles engagées de l'autre côté de la frontière. Donc, l'économie canadienne vacillante a facilité la récupération d'une partie de la publicité canadienne par les stations du Canada.

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(e) Substitution de signaux américains correspondants par les compagnies de câblodiffusion canadiennes - La décision de l'Ottawa Cablevision Ltd de changer la source de ses signaux en provenance des États-Unis, de Watertown, Plattsburgh et Utica à Rochester, lorsqu'il existait un marché local viable, a réduit l'avantage concurrentiel que possédait ce marché frontalier en matière de sollicitation et d'obtention de marchés de publicité télévisée intéressant les Canadiens. Cette tactique dite de saute-mouton a fait ses preuves et a résulté dans la récupération d'environ un million de dollars (par année) de publicité canadienne qui étaient auparavant investis dans ce marché.

(f) Délivrance de licence à de nouvelles stations canadiennes - Au cours des dernières années, le nombre de radiodiffuseurs canadiens desservant les principaux marchés du Canada a augmenté grâce à la création de CFGN et CITY à Toronto, de CKVU à Vancouver, de CKND à Winnipeg et de CITV à Edmonton. En fragmentant davantage les marchés nationaux actuels, ces nouveaux débouchés canadiens ont réduit la pénétration des radiodiffuseurs canadiens établis et des stations de télévision frontalières sur les marchés nationaux. Si, d'une part, cette fragmentation a nui aux radiodiffuseurs américains qui vendaient du temps d'annonce au Canada, d'autre part, l'expansion du câble au Canada depuis 1975 les a aidés dans une certaine mesure. La seule façon d'apprécier les résultats nets consiste à faire une étude marché par marché. Par conséquent, on a tenu compte de ce facteur dans l'évaluation ultime de l'incidence de la loi C-58 et du recouvrement des fonds.

Les tableaux 2 à 6 du document résument les conjectures financières prépondérantes quant à l'incidence de la loi C-58 sur les télédiffuseurs du Canada et des États-Unis. Les chiffres sont exprimés en devises américaine et canadienne étant donné les fluctuations considérables de la valeur du dollar canadien par rapport au dollar américain entre 1975 et 1978.

Pour en revenir à l'objet principal du présent résumé, on suppute que les dépenses brutes réelles (en devise américaine) engagées au titre de la publicité canadienne sont passées de 21,5 millions de dollars en 1975 à 10,5 millions de dollars en 1977 et à 6,5 millions de dollars en 1978. Si une croissance raisonnable s'était maintenue sur les divers marchés américains de télévision le long de la frontière, les investissements publicitaires canadiens aux États-Unis auraient atteint un montant se situant entre 24,9 et 29,7 millions de dollars en 1977 et 26,5 et 32,6 millions de dollars en 1978. Par conséquent, on présume que les pertes, pour les stations frontalières de télévision des États-Unis, au titre des recettes provenant de la publicité canadienne s'échelonnaient entre 14,4 et 19,2 millions de dollars en 1977 et entre 20 et 26,1 millions de dollars en 1978 (consulter le tableau 2).

Le recouvrement net des fonds au Canada est inférieur aux pertes subies par les stations frontalières des États-Unis, à cause des paiements de commission et du régime d'impôt sur les corporations. Compte tenu du profil de croissance probable et d'un impôt sur les corporations dont le taux moyen,

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dans les deux pays, serait de 45%, le recouvrement présumé (en devise américaine) était de 12,4 millions de dollars en 1977 et de 16,6 millions de dollars en 1978. Exprimée en dollars canadiens, la proportion des fonds recouvrés est plus élevée, soit 13,2 millions de dollars en 1977 et 18,6 millions de dollars en 1978. (Consulter les tableaux 3 et 4).[1]

Si l'on reconnaît un taux réel d'imposition des corporations de 45% tant au Canada qu'aux États-Unis, il est possible de deviner quels seront les gagnants et les perdants aux termes de la loi C-58. Le présent rapport suppose que les annonceurs canadiens investiraient le même montant de leur revenu libéré d'impôt dans la publicité, que la loi C-58 soit en vigueur ou non. Si l'on fait abstraction de la disponibilité du temps d'antenne et des fluctuations des coûts, la situation des annonceurs demeure inchangée, sauf qu'au cours du processus, ils ont réduit leurs investissements publicitaires aux États-Unis et en ont ramené la majeure partie vers le système de télévision canadien.

En devise canadienne, les pertes possibles des radiodiffuseurs des États-Unis sur le plan des ventes de temps d'antenne s'élevaient à environ 20,4 millions de dollars en 1977 et à 29,2 millions de dollars en 1978. Après rajustement de ces pertes en fonction des paiements de commission et de l'impôt, le revenu des corporations après impôt avait accusé une baisse de 8,9 millions de dollars en 1977 et de 12,8 millions de dollars en 1978.

En ce qui concerne les agences canadiennes de publicité, la Loi réduit leurs apports de commission et, après rajustement de l'impôt, leur revenu net d'impôt accusait une baisse de 0,4 millions de dollars en 1977 et de 0,7 millions de dollars en 1978.

La loi C-58 a eu pour résultat de hausser l'afflux des revenus des radiodiffuseurs canadiens au titre des ventes; celles-ci passaient à 16,2 millions de dollars en 1977 et atteignaient 23,2 millions de dollars en 1978. Une fois déduits les paiements de commission et les taxes supplémentaires, le revenu net d'impôt des radiodiffuseurs se trouvait renforcé de 7,2 millions de dollars en 1977 et de 10,2 millions de dollars en 1978.

Pour terminer, ces chiffres doivent être envisagés avec un certain recul car un grand nombre d'estimations et d'hypothèses pour le moins hasardeuses ont dû être faites pour produire des données sur les répercussions financières. Toutefois, bien que l'exactitude spécifique des chiffres soit sujette à une série d'erreurs de calcul, la tendance globale de ces projections permet de supposer que les radiodiffuseurs canadiens ont vu leurs recettes croître considérablement à la suite de la promulgation de la loi C-58, tandis que les agences canadiennes de publicité ont constaté une diminution marginale de leurs apports de commission à cause du retour des dépenses de publicité au Canada.

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[1] Le rapport présente suffisamment en détail l'argument selon lequel les chiffres qu'il contient correspondent au recouvrement maximal possible.

Selon ces chiffres, la station KVOS de Bellingham et les trois principaux radiodiffuseurs de Buffalo sont perdants par suite des répercussions financières de la Loi. Cependant, les stations de Buffalo ont déjà comblé une partie de leurs pertes en attirant d'autre publicité locale américaine.

RÉPERCUSSIONS FINANCIÈRES DE LA LOI C-58 - CONDENSÉ

Pertes brutes des stations américaines au titre des recettes de publicité (devise américaine)

1. On présume que les dépenses engagées pour de la publicité canadienne faite par des stations américaines sont, de fait, passées de 21,5 millions de dollars en 1975 à 6,5 millions de dollars en 1978.

2. Si l'on tient compte de la croissance probable des dépenses de 1975 à 1978, les dépenses possibles en 1978 étaient de la gamme de 26,5 à 32,6 millions de dollars. Les pertes des radiodiffuseurs américains en 1978 variaient entre 20 et 26,1 millions de dollars (source: tableau 2).

Recouvrement possible en 1978 (devise canadienne)

1. Si l'on prend en considération la croissance possible entre 1975 et 1978, et si l'on présume que le taux d'imposition des corporations au Canada et aux États-Unis est de 435%, le recouvrement s'élève à 18,6 millions de dollars.

2. Si le taux de croissance n'est pas rajusté, le recouvrement totalise 8,6 millions de dollars.

3. Si l'on se fonde sur la croissance présumée, les radiodiffuseurs canadiens locaux se sont partagé les recettes additionnelles comme suit en 1978:

	(en millions de dollars)
Toronto	$7.7 million[1]
Vancouver	$5.7 million
Montréal	$2.0 million
Ottawa	$1.0 million
Winnipeg	$2.1 million

Gagnants et perdants présumés en 1978, par suite de la loi C-58 - Incidences maximales (devise canadienne)[2]

Radiodiffuseurs américains: Leur revenu avant impôt a diminué de 23,4 million de dollars tandis que leur revenu net d'impôt a baissé de 12,8 millions de dollars.

Agences canadiennes de publicité: En 1978, les revenus présumés provenant des recettes de commission ont diminuée de 1,2 millions de dollars à cause de la loi C-58. Le revenu net d'impôt de ces agences a baissé d'environ 0,7 million de dollars.

Radiodiffuseurs canadiens: Les ventes de temps d'antenne ont augmenté de 23,2 millions de dollars en 1978. Cet accroissement se traduit, grosso modo, par une augmentation de 18,6 millions de dollars du revenu avant impôt et par une croissance de 10,2 millions de dollars du revenu net d'impôt.

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[1] Source: tableau 4
[2] Source: tableau 6

CHAPTER I

I. INTRODUCTION

A. Objectives of the Study

The primary objective of this study is to evaluate the impact of the 1976 amendment to Section 19.1 of the Income Tax Act (Bill C-58) on the television broadcasting industry in Canada.

The essence of Bill C-58 is the disallowance as a deduction against Canadian taxable income of advertising expenditure placed on a U.S. station by a Canadian company if the advertising was designed to reach primarily a Canadian audience. Thus, for most Canadian corporations, this Bill in essence increased their costs of advertising on U.S. border TV stations by about 50% (barring a price adjustment by U.S. stations).

Although the original plan was to restrict the analysis to the financial impacts of Bill C-58 on U.S. border broadcasters and Canadian broadcasters, it became immediately clear in the various stages of the project that the ramifications of Bill C-58 extended well beyond the financial impacts. Consequently, the original terms of the study have been broadened to include a discussion of whether Bill C-58 has effectively achieved the objectives set forth for it, including the repatriation of advertising revenues from U.S. border stations to Canadian stations. In this regard, this study reviews the effectiveness of other parallel policies that were implemented by the CRTC as part of the larger package to achieve the objectives set forth in the 1968 Broadcasting Act. In addition, this study considers the various criticisms of Bill C-58 that have been voiced primarily by U.S. border broadcasters and by members of the Canadian advertising community. Finally, the extension of the study includes a review and critical analysis of alternative policy proposals to Bill C-58 and other Canadian policies designed to achieve similar objectives. Most of these alternative policies surfaced in a series of detailed interviews the authors held with broadcasters, members of the advertising profession, and government officials.

B. Objectives of Broadcasting Policy in Canada

Section 3 of the Broadcasting Act entitled "An Act to Implement a Broadcasting Policy for Canada" states: "It is hereby declared that:

(a) Broadcasting undertakings in Canada make use of radio frequencies that are public property and such undertakings constitute a single system, herein referred to as the Canadian Broadcasting System, comprising public and private elements;

(b) The Canadian Broadcasting System should be effectively owned and controlled by Canadians so as to safeguard, enrich and strengthen the cultural, political, social and economic fabric of Canada;

(c) The programming provided by the Canadian Broadcasting System should be varied and comprehensive and should provide reasonable, balanced views on matters of public concern, and the programming provided should be of high standard, using predominantly Canadian creative and other resources."

The importance of the telecommunications industry in Canada and the objectives for broadcasting policy as set out in the Broadcasting Act were reinforced in the Department of Communications' 1973 Green Paper on communications policy. It was stated in that report (page 8) that "...the social identity of a country resides in a community of thoughts and ideas, of values, of social and political institutions, a community which can be maintained and developed only through the free flow of expression and the easy dissemination and exchange of information... It is therefore essential that a high priority be given to the accelerated development of Canadian creative resources and to greatly increased production and distribution of facilities... The problem for Canadians is not primarily one of excluding foreign programming and sources of information but rather of ensuring access and exposure to such Canadian material as may be available, and of ensuring that available Canadian material is comprehensive and of excellent quality."

As Catherine Swinton has noted: "The concerns of the Canadian government, then, is one of access for Canadian broadcasters: access to program time and access to resources that allow broadcasters to produce programs. That concern has shaped the policies and programs developed by parliament and its agents."[1]

Thus, when the Hon. J. Hugh Faulkner, then Minister of State, introduced what has become Bill C-58 on January 23, 1975, it was widely expected. The principal objectives of the Bill was to redirect funds to Canadian broadcasters, make Canadian broadcasting outlets economically more viable, ensure a broader selection of Canadian programs to viewers, make possible better programs, improve the prospects of new or proposed Canadian stations, and assist in improving the overall quality of the Canadian Broadcasting System.

More recently, in a Toronto address (June 29, 1978) to the Canadian Association of Broadcasters and the National Association of Broadcasters, the Hon. Jeanne Sauvé stated that a primary objective of Bill C-58 was to redivert Canadian-placed advertising revenues from U.S. border stations back to Canadian television stations in order "to secure enough funds for Canada's broadcasting system and make a substantial contribution to our culture." This was the central rationale for the Bill, according to Mme Sauvé, for as she pointed out: "We realize that television programming is a major influence, if not the main one, in the makeup of one's culture."

C. Bill C-58: An Overview of its Financial Effects on U.S. Border Broadcasters

Bill C-58 -- An Act to Amend the Income Tax Act -- disallowed as a deduction against taxable income the costs incurred for advertising placed on a U.S. station by a Canadian company if that advertising was directed primarily towards Canadian audiences. Advertising placed by Canadian firms on U.S. television stations but aimed primarily at American consumers remained eligible as a deduction against taxable income. Section 3 of Bill C-58 which dealt with advertising on television stations was passed in March 1976,

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[1] Catherine Swinton, "Advertising and Canadian Cable Television - A Problem in International Communications Law", Osgoode Hall Law Journal, Volume 15, Dec. 1977, p.557.

was granted royal assent on July 16, 1976 and was proclaimed into law on September 22, 1976. There was a grandfather clause in the Act which allowed Canadian companies to deduct their U.S. advertising expenditures from their taxable income for a period of up to one year based on contracts that were signed prior to the proclamation of the Act. Thus, it was not until September 22, 1977 that the Bill was fully effective and all Canadian-placed advertising on U.S. border stations aimed at Canadian audiences was no longer permitted as a tax deductible expense in Canada.

There is little doubt that the Act has had a rather dramatic financial impact on U.S. border stations. A casual examination of the corporate reports of three major companies that own border stations affected by this Act reveal rather substantial revenue losses for the stations involved. Indeed, the 1977 Annual Reports of Taft Broadasting (owners of station WGR-TV, the NBC affiliate in Buffalo) and Capital Cities Communications (owners of WKBW-TV, the ABC affiliate in Buffalo) state candidly that the impact of Bill C-58 on their Buffalo stations has been to reduce the flow of Canadian-placed advertising revenues by between 50 and 75 percent from the 1975 levels. Wometco Enterprises (the owners of KVOS in Bellingham) claim that the impact of Bill C-58 during fiscal year 1977 was to reduce the net earnings per share by 15 cents or roughly $1.3 million. But all these Reports indicate significant growth in the companies' revenues and profits, particularly in the broadcasting division.

More precise information on the financial impacts of Bill C-58 has been made available to us by the U.S. border broadcasters. The major U.S. border TV stations have provided statistics on their losses in a Memorandum to the U.S. Department of State on the Canadian border television problem dated March 30, 1978. The estimates in this memorandum are based on a Price Waterhouse survey of these broadcasters. The survey reveals that the ten reporting companies experienced a decline in gross Canadian revenue of approximately $9.7 million, from about $18.9 million (U.S.) in 1975 to $9.2 million (U.S.) in 1977. Net Canadian revenues declined by about $8 million (U.S.) over the same period, from a level of $14.1 million to just over $6.1 million in 1977.

Mr. David Mintz, the general manager of KVOS, Bellingham, has provided us with information specific to his station. The data given to us by Mr. Mintz is also reported in Table 1 and it shows that in the case of KVOS, gross revenues declined from $7.4 million (Canadian) in 1975 to $4.1 million in 1977 and just about $3.2 million in 1978 -- a decline of about $4.3 million. Net revenues declined from $6.1 million in 1975 to just under $3.6 million in 1977 and just under $2.2 million in 1978.

As noted earlier, there can be no doubt that Bill C-58 has adversely affected U.S. border stations and has caused a reduction in the flow of Canadian-placed advertising dollars to these stations. A series of related questions still remain:

(1) What is the effective amount of advertising dollars repatriated to Canadian broadcasters?

(2) Do the dollar losses revealed in the Price-Waterhouse survey (Table 1) reflect the full extent of the revenue losses for U.S. border stations?

(3) Has Canadian programming benefited from any revenue gains that may have accrued to Canadian broadcasters?

(4) What has been the impact of other factors at work during this period on the flow of advertising dollars to U.S. border stations and Canadian broadcasters?

D. Other Key Factors Affecting Canadian and U.S. TV Broadcasters

Bill C-58 was not the only policy initiative in operation during the period 1975 to 1978 which impacted on Canadian TV advertising revenues. During this period, the CRTC's policies of simulcasting, commercial deletion, and alternating U.S. signals available on cable systems were also in effect. In addition, there were several important economic events that were occurring which distorted the identification of causality of factors. For example, in 1976 there was the U.S. Bicentennial, a Presidential election, and the Olympics. In 1977, the Canadian economy experienced a mild recession, and the U.S. economy was still recovering from its 1974-75 recession. In addition, the anti-inflation program continued in Canada during 1977 and the Canadian dollar declined sharply vis-à-vis the U.S. dollar in 1977. As well, the introduction of new television broadcasters in the Canadian market and the increased penetration of cable contributed to increased fragmentation in the major Canadian television markets.

All of these factors interacted to affect the advertising broadcast market in Canada and the U.S. during the period 1976 to 1978. In order to isolate the impacts of Bill C-58 on Canadian TV advertising revenues, it is necessary to consider these other events and policies and attempt to estimate their possible economic effects on the U.S. border and Canadian broadcasters.

(a) Commercial Deletion

The commercial deletion policy stemmed from a July 1971 CRTC policy statement on cable television in Canada. One element of that policy statement suggested that cable television operators would in the future be permitted to remove commercial advertising from the signals of stations not licensed in Canada and to substitute other material in those time slots. The first application of the policy occurred on December 21, 1972 when the CRTC amended the broadcasting licence of a Calgary cable company that was importing television signals from a station in Spokane, Washington. As a condition of the licence, the CRTC required that the cable company delete or permit the deletion of commercial advertisements on television signals from stations in the U.S. on the request of local broadcasting stations with whom it had entered into an agreement on this particular subject.

With this precedent, the CRTC began to make mandatory the deletion of U.S. commercials by cable systems when the cable operator's licence came up for renewal before the CRTC. Subsequent to the Calgary case, commercial deletion clauses were included as part of the licence renewals of cable operators in Montreal, the Maritimes, British Columbia and Edmonton.

In August 1973, Rogers Cable Television Company in Toronto began to delete commercials from the Buffalo station WKBW-TV on a random basis and without prior amendment of its licence by the CRTC. On October 16th of that year, Rogers Cable together with Coaxial Colourview Limited and Bramalea Telecable applied to the CRTC for amendents to their broadcast licences to allow deletion of commercials on a random basis and substitution of special promotional messages and general public interest announcements. The CRTC approved random deletion of commercial signals. However, no promotional material was to be substituted. Instead, public service announcements were to serve as the primary replacements.

This CRTC policy resulted in a strong U.S. reaction at the political level and within the Canadian court system. It also produced meetings in June and October of 1976 between U.S. and Canadian officials together with talks between the then Secretary of State Henry Kissinger and the Hon. Don Jamieson on October 15, 1976.

In December of 1976 the Minister of Communications advised the CRTC that the Canadian Government supports the postponement of further implementation of the commercial deletion policy. Shortly thereafter, the Commission issued a public announcement which stated that it would abide by the Government's proposal.

There can be no doubt that the commercial deletion policy did have an adverse effect on U.S. border stations, particularly the three Buffalo stations. (It did not affect KVOS-TV as the policy has not been applied in Vancouver.) Given that the rate of commercial deletion has not increased since 1973, it can be assumed that deletion has not had an incremental impact on TV advertising revenues in Canada. Therefore, during the period under consideration, 1976 to 1978, and in light of the political events that have occurred during this interval, commercial deletion has not likely contributed to any further decline in Canadian-placed advertising expenditures on the Buffalo stations and has not influenced our final estimates of the reduction in the flow of advertising dollars to U.S. border stations.

(b) Simulcasting

Simulcasting -- the substitution of a Canadian TV signal for a U.S. signal on cable when requested by the Canadian station -- commenced in 1970. In that year CHCH-TV in Hamilton and CHAN-TV in Vancouver were the first broadcasters to request and use simulcasting. The major stations involved in simulcasting were CFCF in

Montreal, CFTO, CHCH, and CITY in the Toronto market, CKND in Winnipeg market, CFAC and CFCN in Calgary, CFRN and CITV in Edmonton, and CHAN and CKVU in Vancouver. Between November 1976 and November 1977, the period that is critical for the purpose of our study, the number of simulcast hours doubled in the Montreal market from 7 to 14 per week; declined almost 25% in the Toronto market from 57½ to 43 hours a week (this was primarily the result of a sharp decline in the number of hours of simulcasting on CHCH); increased by 50 percent in Winnipeg; more than doubled in Calgary; doubled in Edmonton; and slightly more than doubled in Vancouver.

Surprisingly, the Buffalo stations as well as other U.S. border broadcasters, are not opposed to the CRTC policy that permits Canadian cable systems to delete U.S. station broadcasts which are simultaneously presented by local Canadian stations. This point was made rather explicit by the U.S. border stations in a memorandum on the Canadian border television problems dated March 30, 1978. Spokesman for the three Buffalo stations in our interviews also reiterated the view that they were not opposed to simulcasting.

Superficially, it would appear that the U.S. border stations are not opposed to the simulcasting policy because the FCC imposes a similar simultaneous network program duplication requirement upon American cable systems. Thus, it would be difficult for U.S. border stations to oppose a policy in Canada which they appear to favour in the U.S. But upon closer inspection of the whole matter, particularly through the interviews, it became somewhat clearer why the U.S. stations, in particular the three Buffalo stations, did not have any serious reservations with the simulcasting policy. It seemed strange that the simulcast policy which appears to go farther than commercial deletion was not opposed by these same stations. However, it should be noted that the majority of the programs that are simulcast are network programs, aired either in prime time or during the day.

Thus, in Toronto only two to three percent, on average, of the syndicated non-network shows were simulcast; while between 30 and 43 percent of the prime time network shows were simulcast. Simulcasting is rare during the prime access hour of 7:00 to 8:00 and during the period 4:00 to 6:00 p.m. During these periods of the day, the Buffalo stations have purchased syndicated programs or present their own produced programs and do not rely upon the networks to supply them with material.

In the interviews, the authors were informed by representatives of the three Buffalo stations that during the prime time period, the networks have the bulk of the advertising minutes available to them and they in turn reimburse the stations for the U.S. audience delivered to the network. The Buffalo stations have approximately 13 30-second spots available adjacent to these prime time shows. According to spokesmen for the Buffalo stations, these spots are sold to major U.S. corporations which are directing the commercial messages at the Western New York population and not at the Canadian

market. In effect, very little of the prime time advertising minutes available to the Buffalo stations have, according to these stations, been sold to Canadian companies.

The bulk of Canadian-placed advertising on the Buffalo stations, prior to Bill C-58 and indeed to some extent post-Bill C-58, was found in the time periods 4:00 to 6:00 p.m., the prime access hour 7:00 to 8:00 p.m., and Saturday mornings on the children's shows. Indeed the Buffalo stations generate a rather substantial proportion of their total revenues during these periods.

The statements made to us during the interviews support the comments made by Mr. Earl Beale (then general manager of WGR-TV in Buffalo) at the Proceedings of the Standing Committee on Broadcasting Films and Assistance to the Arts on December 1, 1975. In response to a question directed at the Buffalo stations, Mr. Beale pointed out: "The amount of revenue derived from prime time is much less than the normal conception of it. We make the major part of our money in local time periods, time periods that we originate from our stations -- not adjacencies to network programs, that would be a minor part of our total revenue."

Since network shows are the ones that are predominantly simulcast and not the syndicated non-network programs purchased by the Buffalo stations, it becomes somewhat more clear why the Buffalo stations are not adamant against Canada's simulcast policy. In essence, they know that they have not been significantly hurt by this particular policy. Upon this theme, the further question emerges as to why the syndicated non-network shows are not simulcast more frequently than they currently are.

Mr. Philip Beuth, Vice-President and General Manager of WKBW-TV, informed the Standing Committee that "we do not, however, buy exclusive rights because it is a very complicated system. If we were to buy exclusive rights to Canada, they would have to exclude Toronto."

While buying exclusive rights for syndicated, non-network programs in a geographic area in the United States is common practice (as witnessed by the situation between Baltimore and Washington, D.C. stations or Boston and Providence stations), the Buffalo stations stated at these hearings that they had not gone along with this particular policy of demanding exclusivity over another marketplace in the U.S. For this reason, of course, they refused to ask for program exclusivity between Buffalo and Toronto. However, in the discussions the authors held with representatives of the three Buffalo stations, the Buffalo broadcasters noted that while they do not purchase exclusive rights for the programs in the strict legal sense, when negotiating with the syndicators, the Buffalo stations were able in many circumstances to insert clauses into the contracts that prevented the Toronto stations from either pre-releasing or simulcasting these same syndicated programs if they were purchased by Toronto stations, or prevented the Toronto stations from getting the

same package of programs from the syndicators -- the programs would either be older or the Buffalo stations would have the right to pre-release them over the Toronto stations.

In effect, the contractual arrangements that have been entered into between syndicators and the Buffalo stations have effectively removed the Toronto stations or have eliminated any possibility of the Toronto stations purchasing similar syndicated non-network programs and simulcasting them against the Buffalo stations in non-prime time periods. These observations have also been supported by spokesmen for CHCH-TV and by direct discussions with principal syndicators in Los Angeles. In our opinion, the legality of these contractual arrangements seems to be somewhat in question.

It is our opinion, however, that if a policy of non-simultaneous substitution were adopted and if applied to network and non-network shows alike, that the Buffalo and other U.S. border stations would have strong objections since this policy would be perhaps more thorough and more devastating to Canadian advertising on border stations than random commercial deletion. The Buffalo and other U.S. border stations might respond by trying to then purchase exclusive rights to these syndicated programs. But in the absence of the introduction of such a policy, we do not believe that Canadian stations will be actively seeking and bidding for such syndicated non-network programs.

The discussion now shifts to the question as to whether simulcasting in fact altered the flow of Canadian advertising revenues to the Buffalo stations. In our discussions with spokesmen for the Buffalo stations, we received the impression that there was little, if any, impact on the flow of Canadian advertising revenues to the Buffalo stations stemming from simulcasting in Toronto.

Equally surprising, our review of the rates charged by the U.S. networks for commercials placed on the networks during prime time revealed that the Buffalo rate had not declined in relative terms over the period 1973 to 1976 despite the fact that simulcasting had become increasingly more prevalent in Toronto during this period and in spite of the fact that random commercial deletion had been occurring in the Toronto market. As the data in Table 4 reveal, the rate for Buffalo has been and continues to be well above the rate charged for cities of comparable market size. This suggests to us that the networks do in fact take into account the Toronto audience of the Buffalo stations in setting their rates for network advertisements placed by the large multi-national corporations.[1]

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[1] Ironically, an examination of figures on U.S. network compensation to the regional stations suggests that the Buffalo stations are not compensated for the Toronto audiences and for the higher rates charged by the networks. This suggests that the networks are important beneficiaries of the off-air and cable spillover into the Toronto market from the Buffalo stations. The large multinational corporations that advertise on the networks do not gain any net advantage from the spillover for they are in fact paying for the Toronto audience when buying advertising time from the networks.

At this point our basic concern is to disentangle the effects of simulcasting from the other events that were occurring during the 1976 to 1978 period, in order to estimate the financial impact of Bill C-58. It is clear that simulcasting has contributed to increasing the revenues of certain stations in the Canadian market. While none of the Canadian stations interviewed were able to give us any precise estimates of the effects of simulcast on their advertising revenues, there have been several outside estimates made of the simulcasting revenue effect on Canadian stations, including the CCTA's January 1978 document and a subsequent CRTC estimate.

Data from a 1977 study by Media Stats Inc. suggest that with the exception of Toronto, the aggregate number of hours of simulcasting has increased in most major Canadian cities and that this likely resulted in some increase in the advertising expenditures on the stations in these markets. We are, however, not confident that these additional expenditures came from substitutions from U.S. broadcasters, other Canadian media or other stations in the Canadian market. Consequently, at this stage we will set aside the possible effects of simulcasting on the flow of advertising revenues both within the Canadian market and between the Canadian and U.S. markets.

At a later point this study reviews the separate markets and individual stations in greater detail, and the simulcast issue will be dealt with again at the more micro level. At this stage, one can argue that in the Toronto market simulcasting has not appeared to have had an incremental effect since there has not been any increase in the aggregate number of hours devoted to simulcasting. Hence, we adopt the assumption that any changes or special gains in revenues by Toronto-based stations since 1976 are not likely to have originated from the increased simulcasting.

(c) The Anti-Inflation Program (AIB)

The Anti-Inflation Program introduced in October of 1975 may have had a two-pronged effect on the advertising market in Canada. Since the AIB limited price hikes to allowable cost increases, this program imposed constraints on the price increases that possibly could have been introduced by the private broadcasters in the major Canadian markets. Indeed, throughout this period of time, Canadian advertisers and advertising agencies claimed that a seller's market predominated during the prime time period. While Bill C-58 increased the market strength of the Canadian broadcasters, the AIB might have prevented excessive advertising price increases from being introduced by the broadcasters. In fact, our data indicate that the advertising time price increases on television during the period 1975 to 1977, were not drastically out of line with the general rate of increases in the consumer price index over the same period.

In addition, the AIB imposed restrictions on the rate of increase of certain expense items, including advertising, promotion and public relations expenses. In contrast to the above effect, expense limitations might have curtailed the growth and demand for advertising time on television stations.

For the purposes of this study, it is only necessary to consider whether the AIB was a significant incremental factor on the advertising market between 1976 and 1978. On the demand side of the equation, we suggest that the guidelines restricting expenses did not have any significant impact during this period on the growth rate of TV advertising expenditures, since from 1976 on, the real growth rate of the Canadian economy was well below the long-run average. In addition, profit growth, particularly during 1975 and 1976, was well below the historical average for major corporations. In effect, in the time period considered the slow growth of the Canadian economy was more likely to have been the significant negative factor in influencing advertising expenditures rather than the AIB guidelines.

On the supply side of the advertising market, relatively few of the broadcasters were directly covered by the AIB guidelines, since there are few broadcasters with more than 500 employees. Nevertheless, the impressions derived from our interviews with Canadian broadcasters was that most of them voluntarily complied with the guidelines and did impose restrictions on the increases in their advertising rates.

But it was frequently pointed out to us by the advertising agencies and advertisers that although the cost per rating point as published on rate cards did not increase as dramatically as one would have expected with the introduction of Bill C-58, it was becoming more prevalent among Canadian broadcasters to tie the sale of prime time availabilities with fringe time availabilities. In this way, the effective cost per rating point was increased by much more than the posted increase in the price per rating point during any specific period of the day. Hence, it would appear, based on both rate data and interviews, that advertising rates did increase somewhat more rapidly than the rate of inflation in Canada - even though the AIB did cause some moderation in the rate of increase. Canadian broadcasters were able to circumvent the guidelines to a certain degree as they in turn were able to demonstrate rather high increases in programming costs.

(d) General Economic Events

The flow of advertising expenditures tends to be linked to corporate profits which, as noted earlier, are a very volatile factor in the North American economy. When national economic conditions are buoyant, and profits are increasing, most companies record increases in advertising expenditures to sales ratios. On the other hand, when economic conditions are deteriorating and profits are weak, one is likely to notice a corresponding decline in advertising to sales

ratios. Hence, economic conditions in both the U.S. and Canada during the period 1975 to 1978 are important to consider in order to capture the effect of Bill C-58 on the flow of advertising revenues between Canada and the United States.

In 1974 and 1975 the U.S. experienced its sharpest post-war recession, as real GNP contracted 1.4% and 1.3% respectively in each of those two years. Pre-tax corporate profits also declined in 1975, 5.1% in current dollars. While GNP declined in real terms, nominal GNP increased by 8.2 percent in the United States and nominal consumer spending rose as well. We need to focus on nominal GNP and consumer spending growth rates since advertising expenditures are in nominal terms and price increases imposed by the networks and their affiliates are not discounted when television advertising totals and growth rates are calculated.

In light of the deteriorating economic conditions in 1974 and 1975, it is not surprising that the growth rate in total sales of television time to advertisers by all U.S. stations and the three major networks increased by only 8.4 percent during the 1974-75 period as compared to 8.8 percent in the 1973-74 period. In the U.S. the only relatively bright spot during the 1974-75 period appeared to be sale of advertising time to local advertisers -- as expenditures for locally placed advertising increased by 10.1 percent during the 1974-75 period.

Thus, the majority of the U.S. television markets experienced lower advertising revenue growth rates in 1974-1975 than in 1973-1974. The recession, although an important factor, was not the only one influencing these trends - since 1974 was a non-presidential election year and there was an upsurge in advertising expenditures for polical purposes in that year.

In both 1976 and 1977 the U.S. economy advanced at a strong real rate of growth with real GNP increased by 5.7 percent in 1976 and at a somewhat lower 4.9 percent rate in 1977. During this same period pre-tax profits in the U.S. rose by 29.4% in 1976 following a contraction of profits in 1975. By 1977 profits in the U.S. were still expanding more rapidly than nominal GNP. In effect, then, profit growth was accelerating out of the 1974-1975 recession and in absolute terms, the increases in corporate profits were substantial.

1976, in addition to being the first year of economic recovery in the U.S., was also a special year from several other perspectives - the U.S. bicentennial, the presidential election and the winter and summer Olympics. All these factors interacted to put extreme upward pressure on the demand for television time in the United States.

The authors concluded that as a result of these various events, national advertisers in the U.S. found it extremely difficult to purchase all the desired time availabilities on the networks and were increasingly compelled to purchase spot time in the regional markets

in order to achieve their target rating points in local markets. Local advertisers were in turn squeezed because the better time availabilities were being purchased by national advertisers and local time was being sought after by candidates running for political office. As a result of rapid economic expansion out of a deep recession and the special factors already noted, the increase in total advertising revenues for the three networks and other U.S. television stations was sharper during 1976 and 1977 than would have been predicted based on normal long-term trends.

While local advertising revenues increased by 28.2 percent in 1976, a large part of this increase reflected price increases that were supported by the substantial demands on available time by the national advertisers and as well, reflected TV time purchases by local politicians.

By 1977 the advertising cycle was moderating as the U.S. economic recovery was not as sharp as it had been in 1976 and the special factors of the presidential election, the Olympics, etc., were no longer in place. Thus, time availabilities on the U.S. networks did open up for the national advertisers and, as a result, many national advertisers were able to obtain the total desired avails for the major markets by purchasing network time. Thus, the accompanying statistics indicate that U.S. firms diverted a significant proportion of their advertising expenditures, or at least of their incremental new expenditures, away from the spot market back to the networks.

In the Buffalo market, spot revenues in 1977 declined by 20.1% compared with the 1976 level, while local revenues gained 17.4%. 1976 was not a good year for spot advertising revenues in Buffalo, as the gains measured against the previous year's figure were very low by the standards of other markets. To sum up this point, a slow growth in spot advertising revenues in Buffalo occurred in 1976 and was followed by deep decline in spot revenues in 1977.

Although Bill C-58 became effective in September of 1976, its approval was expected throughout that entire year. This realization might have had a negative impact on the growth of advertising revenues in the Buffalo market. But the picture is clouded by the reality that the growth rates of advertising revenues in the Buffalo market in the 1973-1974 and 1974-1975 period was sluggish, and were well below the national average growth rates. Hence, it is not that surprising that in 1975-1976 the growth of advertising revenues in Buffalo was less than one-half the national average growth in advertising revenues. While the expectations and the reality of Bill C-58 on Buffalo's poor advertising revenue performance clearly played a role, it should be kept in mind that although 1976 was the beginning of the economic recovery in the U.S., the recovery of Buffalo and Western New York lagged significantly behind other regions of the U.S.

In the important major markets, the growth rates in advertising revenues were well below the record levels attained in 1975-1976 and in six of the seven major markets, spot advertising revenues actually declined although the declines were rather small in percentage terms. To reiterate a point raised earlier, the decline in Buffalo spot revenues was sharp in 1977, 20.1 percent. While the shifting expenditure patterns in the overall U.S. television market might be partially responsible for this substantial decline, the impact of Bill C-58 must have been critical. With the exception of the Providence market, the other four markets that are comparable in size to Buffalo experienced some modest increases in spot advertising expenditures between 1976 and 1977. Moreover, the Burlington-Plattsburgh market also registered a decrease in spot revenues in 1977 and here again, Bill C-58 must have been a key factor. However, Bill C-58 alone cannot account for the Buffalo and the Burlington-Plattsburgh spot revenue declies in 1977. The changing structure of the U.S. advertising market in 1977 also must have played a role although it is difficult to evaluate the full impact of this factor.

In addition, the U.S. value of the Canadian dollar declined by approximately 8 percent from year end 1976 to year end 1977, thus effectively increasing the Canadian dollar price of advertising time in the Buffalo and other U.S. border markets by that full amount. There is ample evidence to demonstrate that there has been some price-cutting by the U.S. border stations as a result of Bill C-58, and it could very well be that part of these rate cuts were to compensate for the higher value of the U.S. dollar.

Canada's economy also influenced the flow of Canadian-placed advertising to the U.S. border stations. While the U.S. experienced a deep recession during 1974 and 1975, there was a pattern of fairly strong recovery in 1976 and 1977. The Canadian pattern was somewhat less cyclical, slow growth during 1974 and 1975, some modest recovery in 1976, and then extremely slow growth in 1977. In general, with the exception of the 1976 stimulus from tourist expenditures associated with the Montreal Olympics, the Canadian economy has performed well below its potential since 1973.

Thus, total Canadian TV advertising expenditures increased by 13.6 percent in 1974-1975, 27.4 percent in 1975-1976, and 13.3 percent in 1976-1977 in Canada. A comparison of these Canadian growth rates to the growth rates for total advertising revenues of the U.S. stations and networks in the U.S. surprisingly illustrates similar growth in Canada and the U.S. With the exception of 1974-1975, when Canada's advertising expenditure growth rate was well above the increase in the U.S.[1], the nominal growth rates in the two countries in 1975-1976 and 1976-1977 were almost identical.

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[1] These differences could simply reflect the more serious nature of the economic decline in the U.S. relative to Canada and the fact that 1974 was a non-presidential election year.

This suggests, given the different economic performances in both countries, the introduction of the AIB in Canada, the impact of the U.S. presidential election and the bicentennial celebration in the U.S., that advertising budget growth rates of U.S. companies, operating in both Canada and the U.S., are likely to be determined by the U.S. parent and simply duplicated by the Canadian subsidiary. The comparison of the growth rates of advertising expenditures by the 40 largest foreign-controlled television advertisers in Canada seem to display a rather remarkable similarity to their U.S. parent growth rate patterns.

Returning to the main theme of this part of the study, the company advertising data and the statistics on the aggregate increases for television advertising expenditures in Canada imply that, in the absence of Bill C-58, there would have been rather strong demand pressures by Canadian firms to advertise on U.S. border stations in 1976. Indeed, the actual large expenditure increases in 1976 in Canada suggest a rather tight supply of time availabilities, particularly those most desired by major advertisers. One should have expected some moderation in demand to advertise on border stations in 1977, particularly when one considers the devaluation of the Canadian dollar. However, we cannot consider Canadian demands for border station time in isolation of what was occurring in the U.S.

Although there would appear to have been relatively strong demand pressures by Canadian advertisers for U.S. border station time in 1976 and 1977, at the same time there were rather strong demand pressures in the U.S. itself, which we noted, was not completely shared by the Buffalo market. In 1976, the growth in spot advertising revenues was only 12.4 percent in Buffalo,well below the national average, but in line with the previous year's experience of Buffalo relative to the national average or to the large seven markets. Since economic conditions in the Buffalo area were relatively depressed as compared to other areas in the U.S., demand pressures for spot time in the Buffalo market were not as great as elsewhere, and this might have opened up some prime time access and 4:00 to 6:00 p.m. availabilities for Canadian advertisers at reasonable prices.

In 1977, with a general weakening of demand for spot time in the U.S., the supply of availabilities would have increased or correspondingly price pressures on such time availabilities would have declined. As a result, and in the absence of Bill C-58, a larger proportion of Canadian demand, could have been satisfied by the U.S. border stations. Offsetting this weakening in supply conditions on the Buffalo side of the market was a corresponding decline in the demand side from the Canadian-based advertisers. When one adds to all this the effets of Bill C-58 of reducing the demand for border TV advertising time, particularly on the Buffalo stations, it is not surprising that there was a rather sharp decrease in spot advertising revenues in the Buffalo market. As noted earlier, part of the sharp 1977 decrease in spot revenues in the Buffalo market must have reflected the general weakness of this market in the U.S. This

point was also emphasized in our interviews with advertising agencies in New York. Indeed, in the March 30, 1978 memorandum on the Canadian border television problem, the U.S. border stations suggested that "some portion of the decline in Canadian revenues might arguably be attributed to the softness of Canada's economy generally."

In order to attempt to disentangle the economic effects from the Bill C-58 effects, at a later stage this study uses other data to cross-check some of our other estimates.

In the case of companies in which the growth rates of advertising expenditures in Canada were well above the corresponding growth rates of the parent company in the U.S., we would argue that a significant proportion of this difference must be accounted for by the impact of Bill C-58. That is, even though economic conditions might not have warranted such a dramatic increase in advertising expenditures in Canada, the seeming reallocation of their expenditures from U.S. border stations to Canada would generate rather substantial increases in advertising expenditures on Canadian television. This, then, is the basic methodology that this study employs to disentangle the economic effects from the Bill C-58 impacts. It is intended that these estimates will be used to cross-check the reliability of other estimates that we will derive.

Obviously, there is some danger in this methodology of misinterpreting the empirical results. For example, in some cases, a reallocation of advertising expenditures from U.S. border stations to Canada might have been primarily due to the recession in Canada and the slower growth in the U.S., rather than to Bill C-58. The spokesmen for the Buffalo stations, Canadian advertising agencies, and advertisers in Canada indicated that time availabilities in Canada are critical. Purchases in Buffalo, for example, are made only after the desired time availabilities on Canadian or Toronto stations were purchased and companies found that they were unable to obtain the desired weekly number of gross rating points in the Toronto market. Hence, it is possible in the future, if Canadian economic conditions turn up dramatically and profit levels rise sharply, that the resulting increases in advertising budgets may necessitate, once more, large-scale purchases of time on the Buffalo and other border stations, even with Bill C-58 in existence. In effect, this analysis suggests that weak economic conditions in 1977 did play a joint role of reducing advertising expenditures by Canadian-based companies on the U.S. border stations and in repatriating a significant proportion of these expenditures to Canadian stations.

(e) Substitution of Alternate Regional U.S. Signals on Canadian Cable

The CRTC granted Ottawa Cablevision Ltd. the right to commence on October 1, 1977 to pick up U.S. network signals from Rochester and substitute the Rochester signals for those previously imported into Ottawa from Watertown, Plattsburgh and Utica. As reported in the September 20, 1977 issue of The Ottawa Journal, the plan "was to pick up the programming from all three U.S. networks from three stations

in Rochester, New York, an area where there is a viable local market. They would not be inclined to reach into Eastern Ontario for additional advertising revenue as WWNY Watertown has for several years."

This innovative CRTC policy of leapfrogging U.S. border stations in order to reduce their competitive advantage of seeking and obtaining Canadian advertising expenditures has rather important long-term ramifications, as well as implications for the impact of Bill C-58. The Ottawa Journal article suggested that the revenue losses to Watertown and Plattsburgh resulting from this switch may be in the $1 million plus range and will occur in the post-September 1977 period. As to the long-term effects, by substituting distant signals from markets where advertising rates and market size are much larger than from nearby U.S. border markets, the CRTC may have come up with a policy which not only is complementary to Bill C-58, but perhaps even much more effective in stopping or dramatically reducing the flow of Canadian advertising revenues to U.S. border stations.

The reaction of the U.S. border stations to this new CRTC initiative has been quite predictable. In that oft-cited March 30 memorandum, U.S. border stations commented with regard to the switching of signals by Ottawa Cablevision Limited that "we do not suggest that a station such as WWNY-TV has any 'right' to be carried on the Ottawa or any other Canadian cable systems, or to earn Canadian advertising revenues. We do urge that it is grossly unfair for the CRTC to encourage or force Canadian cable systems to reach out for distant American stations, 'leapfrogging' those whom the cable operators would otherwise select, for the purposes of obtaining American program service from stations that are (as a practical matter) unable to sell advertising to Canadians." Our report suggests that this argument is entirely specious, and does not merit serious consideration by the CRTC or the Department of Communications.

(f) Licensing of New Stations in Canada

During the past few years new television stations have been licensed in the major Canadian markets with the exception of Montreal. For example, the number of broadcasters has increased by the addition of CFGN and CITY in Toronto, CKVU in Vancouver, CKND in Winnipeg and CITV in Edmonton, which has fragmented the markets in these cities even further. By dividing the local markets into more pieces, these same stations attract audience to some degree from both existing Canadian stations in these markets as well as from U.S. broadcasters, either by off-air or cable. The emergence of these new stations has led to what John Tomlinson of Hayhurst has labelled media inflation.

It is clear that the major advertisers on television are reluctant to purchase time, even prime time, on new stations when the ratings are unknown or in cases where the ratings while known, are dramatically low. Thus, major advertisers are compelled to increase their advertising expenditures on the existing large audience stations to reach their rating point targets. Ironically, the further

fragmentation of markets may have pushed large advertisers towards the large Canadian broadcasters by increasing demand for existing prime time availabilities, and prices may have been pushed up significantly enough to more than offset the potential reduction in revenues (due to added competition) to a particular station.

Our data reveal that in the Toronto and Vancouver markets the viewing share of American stations had declined rather sharply between January 1976 and November 1977.[1] In Vancouver, the decline in the share of U.S. viewing was largely centred in the Seattle stations, with KVOS's share declining marginally from 13.2 percent in January of 1976 to 12.4 percent in November 1977. Hence, although there was tight supply in the Vancouver market, there was likely to have been downward pressure on the relative price of advertising time on KVOS as compared to CHAN, CHEK, and CBUT in the Vancouver-Victoria area because of declining ratings prior to the introduction of Bill C-58. In the other markets in Canada, most notably Montreal, Winnipeg, Calgary and Edmonton, U.S. station viewing shares have remained relatively constant or have increased marginally.

Thus, there are conceptually two offsetting forces at work vis-à-vis border station advertising. In one direction increased fragmentation stemming from the licensing of new stations may have stimulated additional advertising expenditures on the Buffalo stations or alternatively there is the offsetting factor related to declining Canadian viewing of U.S. border stations. CHCH-TV provided some figures which suggest that the licensing of CKGN and CITY in Toronto has had a more detrimental impact on the aggregate viewing shares of the three Buffalo stations than on the aggregate viewing share of Canadian stations. The figures suggest that CKGN and CITY have attracted some of their viewers from existing Canadian stations (notably CBLT and CFTO), but at the same time viewers have been attracted from the Buffalo stations, notably WBEN (now WIBV).

In one of our interviews, we explored with Buffalo stations spokesman, the impact of fragmentation on the expected growth rate of Canadian revenues for his station. That spokesman felt that, even without Bill C-58, the revenue increases from Canadian-placed advertising would have levelled off at his station, and would not continue at the pre-1976 pace of 10 percent annual increases. While spokesmen for the other two stations did not provide any precise estimates, they felt that to some extent, increased Canadian fragmentation would reduce their station revenues. That is, they felt that increased fragmentation had a negative impact on the growth rate of Canadian-placed advertising revenues with their stations, and that this negative impact would have accelerated over time, even without Bill C-58.

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[1] A more significant decline for KVOS viewing in the Vancouver market has been in place since November of 1970, when its viewing share in Vancouver stood at 23.4 percent.

In conclusion, the impact of licensing of new stations and increased cable penetration are likely, in our opinion, to have reduced the growth rate of Canadian-placed advertising expenditures on U.S. border stations. The success of a couple of the newly licensed stations to develop viable market shares has provided national advertisers with reasonable time availabilities that could be purchased in order to meet rating points targets in the major markets. In the absence of Bill C-58, there would likely have been a diversion of Canadian advertising revenues from U.S. border stations to the succeeding newly licensed stations. However, Bill C-58 has most likely accelerated this trend.

CHAPTER II

II. AN EMPIRICAL OVERVIEW OF THE TELEVISION ADVERTISING MARKETS IN CANADA AND THE U.S.S

A. The Canadian Market

(a) General Comments

In order to place the border television issue in an appropriate perspective, it is necessary to recall the following. A television broadcasting station primarily transmits electronic signals which carry programs and advertising to receiving sets in the hands of the general public. These signals are transmitted on a specific frequency in the radio-magnetic spectrum. The pattern of radiation produced by such a station is normally omnidirectional. The radius within which the transmitted signals can be used by ordinary television receivers depends upon factors such as the frequency, the height of the station's transmitting antenna, the effective radiated power, the nature of the terrain between the transmitting antenna and the receiver, and the presence or absence of other signals.

In the submission by KVOS-TV to the Trade Policy Staff Committee of the U.S. in January 1978, "the most salient characteristic of the United States-Canada border television area is the interpenetration of the signals of one country's stations into the territory of the other country, due to the omnidirectional nature of the patterns of radiation produced by such stations... The fringe grade B service rendered to Toronto by Buffalo stations WIBV-TV, WGR-TV, and WKBW-TV, the grade B or better service to Montreal provided by North Pole, New York Station WPTZ and Burlington, Vermont Station WCAX-TV, the Grade A or better service to Vancouver rendered by Bellingham, Washington Station KVOS-TV are not in violation of any of the pertinent agreements."

Canada and the U.S. are parties to a number of international agreements governing the allocation and use of television broadcasting frequencies. The International Telecommunications Convention and the Radio Regulations provide the basic world-wide agreements covering the allocation and use of frequencies in the radio-magnetic spectrum. Canada and the U.S. are also parties to pertinent regional arrangements. Under the Canadian-U.S. Television Agreement of 1952 and its working arrangements for the allocation of VHF television stations, both countries have agreed to an allocation of television frequencies and various principles governing their assignment and use.

Also of interest for the purpose of this study are Article 7, Section 1 of the International Radio Regulations that states that in principle television broadcasting stations "shall not employ power exceeding that necessary to maintain economically an effective national service of good quality within the frontiers of the country concerned" and Article G of the Canadian-U.S. Television Agreement provides that television broadcast transmitters "shall be located so as to serve the city to which a channel is allocated." While neither

of these requirements prohibits or renders illegal the provision of service by stations of one country to residents in another country, they do serve to cast some doubt on the validity of the claims made by U.S. border stations that they are entitled to payment for the services they provide to Canadians.

The availability of U.S. television signals off-air in the three major markets in Canada has been exacerbated by the relatively permissive policy of licensing cable television systems. The level of cable penetration in the major markets is approaching or exceeding 70% in Canada.

Catherine Swinton argued in an article that "CATV threatens the existing structure of the television broadcasting system, which is based on licensing local stations to serve a designated community. CATV derogates from the value of the local licence holders market by importing signals from distant stations." The validity of this argument is once more important to consider, particularly when evaluating the various criticisms levied against Bill C-58 by U.S. border stations and the concluding sections of our report will undertake this review.

Another background factor that is important in evaluating the role of Bill C-58 and other parallel policies which have similar objectives is the Canadian content rule governing Canadian-licensed stations. In 1961 the Canadian Board of Broadcast Governors established a requirement that a minimum 45% of the broadcast time on all Canadian television stations be devoted to programs that were Canadian in content and character. In 1962 the requirement was raised to 55% and in 1969 to 60%. In 1972 the CRTC announced its first Canadian content rules and these required that 60% of the programming on a television station be Canadian with the following proviso - 50% of prime time programming be Canadian in content on private stations and 60% of prime time on public stations. In effect then, from the period of 6:00 a.m. to sign-off there would be a 60% average Canadian content rule; between the hours of 6:00 p.m. and midnight there would be a 50% Canadian content rule.

With these various factors in mind, we can now turn our attention to describing the existing structure of the Canadian television broadcast industry. There are at present in Canada two national networks, the CBC and CTV networks, and two regional networks, TVA in Quebec and the Maritimes and Global in southern Ontario. In terms of separate stations, there are 61 publicly-controlled stations, 24 affiliates of CTV, 4 affiliates of TVA, 7 independents, and the Global Television network.

(b) Regional Overview

Our data reveal that in 1977 of the $375.6 million of total air time sale revenues generated by the television broadcasting industry in Canada, $310.3 million (82.6%) were earned by the private stations. The CBC generated about $65.3 million in total advertising

revenues. In terms of program expenditures, on the other hand, the total outlays by the private stations in Canada in 1976 amounted to \$138.0 million as compared to the \$262.8 million spent by the CBC. When one includes all expenses, private stations had outlays of \$254.5 million as compared to \$443.3 million spent by the CBC. While the CBC system operated with a \$378 million deficit in 1977 (requiring this infusion of funds from the government), the private stations in total had an operating income of \$76.5 million or approximately 23.1% of the total revenues.

Over the four year period ending in 1977, the aggregate operating income of private stations had more than doubled from \$32.8 million to \$76.5 million, while net profits increased five-fold from \$6.2 million to \$31.8 million.

An examination of the private broadcasting figures demonstrates some rather important differences in the regional allocations of advertising revenues and expenditures. For example, the Atlantic Provinces together with Quebec, Manitoba, Saskatchewan and Alberta tend to be relatively dependent upon local sources for advertising revenues. In 1977 stations in these provinces obtained between 38.3% and 46.4% of their total sales revenues from locally situated advertisers. On the other hand, television stations in Ontario and B.C. were not very dependent upon local sources of advertising revenues, but depended to a larger extent on national and network sources.

In Ontario private stations earned on average 73.7% of their revenues from national advertisers in 1977, while in B.C. the proportion was 50.3% from national advertisers and 14% from the networks. Stations in Quebec were also dependent to a large extent on national advertisers with about one-half the revenues coming from such sources in 1977. In addition to stations in B.C., stations in Manitoba, Saskatchewan and the Atlantic Provinces also received more than 19% of their revenues from network sales in 1977.

One peculiarity worth noting which has bearing on this study is that between 1975 and 1976 the actual nominal dollars spent on locally placed advertising on private stations in Ontario declined from about \$13.5 million to \$12.7 million. This is the only case of a decline in advertising revenues from one year to the other in any of the regions and for any of the categories of air time sales.

It is important to appreciate the relative importance of the various sources of advertising expenditures for stations in the various regions. For example, Quebec TV broadcasters received just under 34% of all local television expenditures in Canada in 1977, while stations in Ontario received 50.2% of all nationally placed advertising expenditures and just under 37% of all network expenditures.

In summary, the key statistics that stand out are the relative unimportance of local advertisers for stations in Ontario and B.C. and the dominance of national advertisers in Ontario. These various proportions do raise some question about the supply of time availabilities on stations in Ontario and British Columbia and, in particular, in the Toronto and Vancouver markets.

Not surprisingly, the data reveal that a disproportionate share of total program expenditures are made by television stations in Quebec and Ontario. The combined expenditures for programs in 1977 in these two provinces were in excess of $88.4 million or over 64% of the total private expenditures in Canada.

As to how the stations distribute their expenditures, the major classifications are for programming, technical work, sales promotion, and administration. In 1977 private stations in Ontario, Manitoba, Saskatchewan, Alberta and B.C. devoted more than 50% of their total expenditures to programming - while private stations in the Atlantic Provinces and Quebec tended to spend a disproportionate amount of their expenses in the technical field. In terms of the administrative proportions, the ratio was highest in Quebec with 27.2% of expenses devoted to administration and lowest in Ontario with 20.1% in 1977.

(c) Overview of the Six Major Markets

Our data are based on statistics provided to the CRTC by each of the separate private stations in the major Canadian markets: Montreal, Calgary, Edmonton, Vancouver, Toronto and Ottawa. These were the markets most likely to have benefited from Bill C-58. Hence, when we consider the financial impacts of Bill C-58, any repatriation must be placed against the aggregate amount of air time sales of just under $164 million for these six markets. As an example, a repatriation of $8 million would have amounted to about 5% of these total sales, a significant amount.

Our data demonstrate the importance of the six major markets relative to the entire private Canadian broadcasting industry. For example, in 1977 the stations in the six markets accounted for 46.5% of all local television sales, 66.2% of national sales, 15.4% of network sales, 56.8% of all programming expenditures and 54.5% of aggregate operating income. The combined national sales of the stations in the six major markets accounted for between 53 and 77% of total national sales in each of their respective regions in 1977. With the exception of the Calgary/Edmonton markets, the stations in the other four markets had a relatively higher share of their region's aggregate national sales than of the local sales. In effect, the stations in the smaller markets in all regions (with the one exception in Alberta) were relatively more dependent upon local sales and network payments than the stations in the major markets.

Our data also reflect the relative insignificance of local revenues for the Toronto stations. Not only have local revenues accounted for less than 8 percent of the total air time sales of all Toronto stations combined since 1974, but the proportion has been declining steadily since 1974, so that by 1977, local air time sales accounted for 3.7% of total air time sales. Mirroring this relative unimportance and decline of local sales has been the dominance and increasing importance of national sales in the Toronto market. These opposing trends reflect to some extent the increasing importance of CKGN (Global TV) in the Toronto market and the fact that CKGN is

licensed only to accept national advertisers. Excluding CKGN, there has been a persistent decline in the share of local sales on two other private stations in the Toronto market since 1974 and a corresponding increase in national sales. In every case in 1977, the four Toronto based stations earned over 80% of their revenues via national air time sales. These data imply that it must be extremely difficult for local advertisers to find time or to afford the prices for advertising time on the major television stations in the Toronto market with one possible exception.

Within the Vancouver market, local revenues have become increasingly more important to the broadcasters. Both private stations appear to have been able to attract more local advertisers, perhaps at the expense of KVOS. KVOS officials revealed to us that the decline in Canadian-placed revenues on their station between 1976 and 1977 was of the order of $2.4 million. As we will discuss later on, not all of this could have been the result of price-cutting by KVOS because of the grandfathering provisions in Bill C-58 and, at the same time these losses ignore the possibility that in the absence of C-58 there would have continued to be some growth in Canadian-placed advertising expenditures on KVOS.

The stations in the Winnipeg, Edmonton and Calgary markets are highly dependent upon local sources of advertising revenues -- with all stations receiving approximately 50% or more of their total revenues from local sources. The private French-language station in Montreal which belonged to our sample was almost as dependent upon local sales. However, the two private English-language stations in Ottawa and Montreal were much more reliant upon national avertisers.

Total air time sales for private stations in the Toronto market just barely doubled between 1974 and 1977, while sales increased by just over 66% in Montreal, and more than doubled in the Vancouver, Calgary, Edmonton and Winnipeg markets. For example, in Vancouver the increase from $7.6 to $19.5 million was of the order of 156.6%. In all of these markets, there had been a new station licensed during the 1975-1977 period. It seems that the introduction of new stations and the attraction or repatriation of some Canadian-placed advertising expenditures from U.S. border stations accounts for part of these large revenue gains. Although revenues in Toronto increased at a slower pace than in the three principal Western markets, the increase was still more dramatic than in Montreal.

On the expenditure side, the four Toronto stations' expenditures on programming alone totalled $37.6 million in 1977, a figure just less than the combined expenditures on programming by all the private stations in Vancouver, Calgary/Edmonton, Winnipeg and Montreal. These relative amounts reflect once more the dominance of the Toronto stations in the overall programming scene in Canada. It is also interesting that between 1974 and 1977, despite an increase of just over $34 million in total air time sales for the four Toronto stations, program expenses increased by just over $7 million for these same stations. On the other hand, while the aggregate air time sales for private stations in the other markets increased by just under $48 million between 1974 and 1977, expenditures on programs rose by a proportionately larger amount -- the aggregate increases totalling about $22 million.

On more careful examination, the difference in program expenditures between Toronto and Montreal becomes even more interesting, at least as they relate to the objectives of the study. For example, in 1977 the four Toronto stations spent about $18.2 million on domestic programming as compared to $14.9 million by the two Montreal stations. Expenditures for feature films and syndicated programs, the large part of which were U.S. programs, totalled about $17.4 million for the Toronto stations and only $2.5 million for the Montreal stations. Toronto is much more dependent than French-speaking Montreal upon the supply of American programming. Indeed, this is not surprising, since there are four private English stations in Toronto as compared to one private English-speaking station in Montreal.

It is equally interesting that of the $10.9 million increase in total air time sales in 1977 in the Toronto market, approximately 44% went towards increased expenditures on feature films and syndicated programs (an additional $4.7 million was spent by the four Toronto stations on such programming); of the increase of about $7.8 million in revenues in the Vancouver market, approximately 31% went towards increased expenditures on feature films and syndicated programs (approximately $2.7 million). Only in the Winnipeg market was there no significant increase in expenditures on feature films and syndicated programs -- the bulk of the increase on program expenditures was devoted towards domestic programs.

These data suggest, at least at face value, that if Bill C-58 did succeed in repatriating advertising revenues from U.S. border stations towards Canadian stations, particularly in the Vancouver, Winnipeg and Toronto markets, then an equally important effect of this bill has been to increase the expenditures on foreign sources of programming.

Our data also trace the absolute dollar increases in revenues of the private stations in the major Canadian markets. In Vancouver there was an increase of about $7.8 million in total revenues between 1976 and 1977. This increase was well in excess of the $2.9 million increase recorded in the previous year. Since the impact of Bill C-58 began to take effect during 1976-1977, the rather startling difference in the performance of advertising revenues in the Vancouver market between the period 1975-1976 and 1976-1977 must partially reflect the financial impacts of this bill.

In the combined Edmonton/Calgary markets, the increase in total revenues for the four stations amounted to just under $4 million between 1976 and 1977, a figure just marginally ahead of the $3.8 million increase recorded in 1975-1976 and well below the $4.8 million increased recorded in 1974-1975. The rather flat annual increments in the absolute dollar growth of revenues in the Edmonton/Calgary market suggest that Bill C-58 has had a rather minimal impact on the revenue figures of these stations.

In the Winnipeg market, the increase in revenues between 1976 and 1977 was below the increment recorded in 1975-1976. The rather large absolute dollar rise in 1975-1976 reflected the licensing of CKND. It has been widely recognized that a rather substantial

proportion of the revenues generated by CKND in its first year did stem from the closing of KCND in Pembina, North Dakota and the transfer of its Canadian-placed advertising to CKND in Winnipeg.

In the Toronto market, the annual increments in total dollar revenues were about $10 million between 1974 and 1975, $13.3 million between 1975 and 1976, and $10.9 million between 1976 and 1977. The falling off in the absolute dollar growth between 1975-1976 and 1976-1977 would appear to be inconsistent with the view that Bill C-58 benefited the Toronto stations. However, it is conceivable that in the absence of Bill C-58 the absolute dollar increment would have been much less than $10.9 million. In addition, part of the decline in the absolute dollar increase reflected a sizeable decrease of $600,000 in locally generated revenues. In the latest period national revenues increased by $11.5 million as compared to the $12.8 million increment recorded between 1975 and 1976.

These observations could be interpreted in the following way. Bill C-58 compelled national advertisers to increase their purchases of prime time availabilities on the Toronto stations, and as a result, squeezed out local advertisers from these stations.

As for the position of CKGN and CITY within the Toronto market, if one makes the extreme assumption that their entire absolute dollar increase in revenues between 1976 and 1977 were the result of Bill C-58, and they were the only two stations in the Toronto market to benefit from this bill, then an upper limit to the maximum funds repatriated from Buffalo to the Toronto market can be readily calculated. Obviously, when one examines the absolute dollar gains made by CKGN and CITY in previous years, it is difficult to believe that even a substantial proportion of the absolute dollar increases recorded by these two stations between 1976 and 1977 could have been the result of the repatriation effects of Bill C-58. We will return to this subject when we estimate the financial impacts of Bill C-58.

In Ottawa and Montreal, the absolute dollar increase in revenues was just marginally below the increase recorded in 1975-1976. As for the CTV network, there was a rather sharp decrease in the absolute dollar increase between 1976-1976 and 1976-1977. Obviously, Bill C-58 had little if any effect on the revenue growth of the CTV network and if there has been a significant repatriation effect, it is likely to have occurred in the national advertising expenditures on selected stations in the major markets.

B. The U.S. Market

(a) Aggregate Overview

The U.S. private television system in 1977 consisted of the three major networks, 15 network-owned and operated stations, approximately 546 network affiliates spread across the U.S., and 85 independents. The three major networks purchase and provide programs for approximately 24½ of the 31½ prime time hours, defined as between 6:30 p.m and 11:00 p.m. Sunday through Saturday, to their affiliate stations. In addition, the networks provided programs to the affiliates during the afternoon and early morning periods.

Networks sell the bulk of the time associated with these programs to major national advertisers and the networks in turn reimburse their affiliates for the audiences delivered. Thus, in a typical 8:00 p.m. to 11:00 p.m. period during the week, of the total of 27 minutes in advertising time permitted by the FCC, only 6½ minutes would be available to the local affiliates to sell on their own, while the remaining advertising time would be sold on their behalf by the networks.

The Canadian private CTV network operates in a different fashion. The CTV network provdes only 15 of the 31½ hours of programming between the hours of 7:00 and 11:30 p.m. In effect, a large proportion of the prime time period is available for programming by local CTV affiliates and hence a larger proportion of the total advertising time availabilities during prime time are available to be sold by the CTV affiliates as compared to the three major network affiliates in the U.S. These differences are important for estimating the impacts of Bill C-58. That is, a smaller proportion of the total prime time availabilities on U.S. stations were adversely affected by Bill C-58 than was the case of the total time availabilities that were positively affected by the Bill in Canada.

Of the $6.8 billion in gross air time sales generated by the networks and other stations in the U.S. market in 1977, 43.2% ($3.0 billion) were obtained by the three networks, 8.9% ($610 million) by the 15 network-owned and operated companies, and the remaining 48% ($3.3 billion) flowed to the affiliates and independent stations.

In the U.S., the proportion of the total television revenues accounted for by the three networks remained relatively constant between 1973 and 1976, but displayed a rather sharp increase between 1976 and 1977. The main losers in terms of revenue share were the affiliates and independents, who saw their share of total advertising revenues for the U.S. television industry decline from 50.3% in 1976 to 47.9% in 1977.

According to various financial analysts on Wall Street, this change in U.S. shares between 1976 and 1977 reflected a general weakening of economic conditions, but also the continued importance of network advertising by the major U.S. advertisers. In effect, when economic conditions result in a slower growth in advertising budgets, or even decreases in budgets, the largest cuts, either in relative or absolute amounts, are experienced in the advertising expenditures placed with affiliate and independent stations. The networks would continue to sell out their time availabilities at the best prices, while there would be a softening in the prices in the remainder of the market. The affiliates and independents are the swing suppliers of avertising time availabilities in the U.S., while the smaller urban markets and stations in Canada play a similar role.

Of the $3.2 billion in U.S. advertising revenues received by the three networks in 1977, only $28 million or 8.7% were in turn paid out to the affiliates of the three networks. In contrast, the CTV

network in Canada returned 29.8% of its revenues to its affiliates in payment for the audiences they provided. In addition, on their 1977 revenues, the three major American networks had an operating profit of $406.1 million or 13.2% of total sales; whereas, the CTV network operated primarily as an intermediary and generated a rather modest profit. In the U.S. the three major networks are independent of their affiliates, whereas in Canada the CTV network is owned by the affiliates.

Our data further illustrate the dominance of network advertising to the overall television advertising picture in the United States. In 1977 network advertising accounted for 47.4% of all advertising expenditures, while spot advertising accounted for another 28.8% and local for 23.8%. For later reference, it is interesting to note that over the period 1975 through 1977, the proportion of total revenues accounted for by locally-placed advertising in the U.S. remained relatively constant at between 23.6 and 23.8%. On the other hand, spot advertising revenues rose as a proportion of total revenues for the three networks, the network O and O's, and affiliates and independents from 30.7% to 31.9% between 1975 and 1976 (this reflected to a considerable extent the inability of major and national advertisers to find time on the networks and the use of the local stations by politicians during the presidential election year) while the proportion declined to 28.8% in 1977.

As pointed out above, this was largely the result of the impact of the slow growth in the U.S. on advertising budgets and the necessity in the views of major national advertisers to maintain their expenditures or rating points purchased on the networks and use spot advertising as a means to trim the growth rate of their total ad budgets. These trends are interesting for the implications they have when we examine the data for the Buffalo and Burlington-Plattsburgh markets.

One final comment. In the U.S., the major national advertisers rely quite extensively on network-placed advertising in order to achieve their rating targets across the country. In Canada, while the major advertisers would like to rely on network advertising to achieve their goals, the fact that there are only 2 commercial national networks in Canada limits the possibility of achieving their targets, particularly in the major markets, by relying strictly on network advertising. Hence, if we combine the total network advertising placed on the CBC together with that on CTV, the figure for 1977 totals around $71 million, or approximately 20% of total advertising revenues for the Canadian television broadcasting industry that year.

In the Canadian case, major national advertisers deem it important to buy non-network time availabilities on the major stations in the three principal markets of Montreal, Toronto and Vancouver. If their rating point targets cannot be achieved in the major markets, then the general policy is to cut back on television advertising expenditures across Canada.

The three major U.S. networks over 85% of their total expenditures were made for programs and technical expenses. This proportion has fluctuated a bit over the period 1973 to 1977, but still can be regarded as relatively stable. Underlying the program part of the expenses, it is apparent that the three networks spent about 53% of their total expenditures for the purchase of feature films and programs, primarily from Hollywood producers and entertainment companies. The 52.8% proportion in 1977 represented expenditures of $1,150.4 million. It is interesting to note that between 1976 and 1977 the proportion of total expenditures accounted for by purchased series rose from 40.3 to 43.6% for the networks -- the increase in the share represented largely a rather dramatic increase in the cost of producing theese shows. Indeed, over the entire 1973 to 1977 period, these purchased programs accounted for an increasing share of total U.S. expenditures. On the other hand, feature films represented a smaller share in 1977 than in 1973, but this share seems to have stabilized and might have been on the upswing in 1976 and 1977.

It is worthwhile to once again contrast the U.S. networks experience with that of the Canadian CTV network. In the CTV case program and technical expenses accounted for approximately 89.5% of the total expenditures excluding reimbursement for station time by the network. In 1977 the purchase of syndicated programs for the CTV network accounted for approximately 47% of their expenditures, somewhat higher than the 43.6% of the three major U.S. networks. In the case of the three major U.S. networks, the purchases were for American programs, and the funds remained within the United States - while in Canada's case, the purchases were also for American programs, and hence there was a flow of funds from Canada to the United States. On the CTV network, the proportion of revenues accounted for by syndicated programs also has increased. <u>The increased syndication revenue share reflected the much higher cost of U.S. programs</u> -- the result of rising U.S. production costs, the increased bidding by Canadian stations for the prime series and the lower value of the Canadian dollar.

The total expenses for the three American networks have been increasing at a progressively higher rate during the 1975-1976 and 1976-1977 period than in prior years. To a large extent the higher cost increases were accounted for by the sharply higher prices that were paid for purchased programs -- in 1977 alone the cost of these programs rose by 29.3% after an increase of 14.1% in 1976 (a cumulative increase of 19.1% in 1977 and 29% in 1976 for a cumulative increase between 75 and 77 of just under 54%.

Expenditure increases for the U.S. network O and O's showed a sharp increase in 1976 over 1977 but the rate of increase levelled off and returned to the more normal 7.5 to 8% growth rate level in 1977. The rates of increase for the other two categories, the network affiliates and independents, are somewhat difficult to determine since the number of stations included in these two categories changed from year to year over the period 1973 to 1977. Nevertheless, it appears that the rate of increase has been relatively high and in excess of the prevailing rate of inflation in the U.S. economy. Some levelling off in this expensing began in 1977.

(b) Overview of Selected U.S. TV Markets

We now turn our attention to selected U.S. markets and the operations of the stations, both network O and O's and affiliates, within the particular markets. Our sample of markets is divided into four groups. The first consists of the seven major markets in the U.S.; a reasonable yardstick for comparison with the three major Canadian markets, Toronto, Montreal and Vancouver. The second group of markets includes those, with the exception of Rochester, of roughly similar market size to Buffalo (U.S. audience only is considered). This group of cities enables us to compare the relative performance of Buffalo to these other markets. Rochester has been included with this group of cities in order to see if there was any peculiarity in the Western New York State market that may have affected the performance of Buffalo relative to the other four similar sized markets -- Cincinnati, Portland, Providence and San Diego. The third group consists of those markets of roughly similar size to the Burlington-Plattsburgh market. The last category consists of markets roughly similar in size to the Erie, Pennsylvania market. Unfortunately, data for KVOS in Bellingham were not available.

The following observations are important to this study:

(1) Spot advertising revenues are relatively more important in the larger markets, with a corresponding decline in the importance of local and network revenues in these markets.

(2) In the Chicago market, spot revenues accounted for 65.6% of the total revenues of the stations in 1977, the highest proportion of all markets sampled.

In the Toronto market, national spot revenues were in excess of 90% of the total advertising revenues. Obviously, this represents a peculiarity of the Toronto market when it is compared to other markets in Canada, or to the major markets in the United States. The relative unimportance of local revenues for the Toronto stations suggests that either time availabilities are in short supply in that market or the prices for time, particularly the less desirable fringe times, are still extremely high for most local retailers. It is possible that the prices are relatively high in the Toronto market because even the availability of time on the Buffalo stations prior to Bill C-58, the degree of competition on the supply side in the Toronto market is much less than is the case in the major American markets.

(3) In most major U.S. markets the relative importance of spot revenues has tended to decline since 1975 - through Chicago and Boston represent somewhat different experiences. The post 1975 decline in the relative importance of spot revenues supports the previous noted observation that major U.S. advertisers moderated their advertising expenditure growth in the spot market in 1977. This most likely necessitated the television stations operating in the major markets to actively solicit local customers in order to fill their time availabilities.

(4) In the other markets, with the exception of Buffalo, the proportion of total revenues accounted for by spot revenues was equal to or somewhat higher in 1977 than in 1975, although below the peak value of 1976. Once again, it is important to recall that the presidential election and other special events generated a large increase in demand for spot time in 1976 in these secondary and tertiary markets.

(5) Focusing on the Buffalo market, one notes that spot revenues accounted for almost 71% of total revenues for the Buffalo stations in 1973. The Buffalo 1973 spot ratio was higher than the proportion recorded in the seven major markets, and was almost 16 percentage points above the 55% ratio recorded by the stations in Portland, Oregon in 1973. Obviously, the availability of Canadian advertisers forced the Buffalo stations to become highly dependent upon spot advertising revenues. In this regard, the distribution of revenues in Buffalo in 1973 was more comparable to that in the major U.S. markets than to other markets of similar size. The spot revenue share has declined consistently since 1973. Offsetting the relative decline in Buffalo spot revenues was a shift towards a higher share of local advertising revenues. Indeed, by 1977 the distribution of revenues for the Buffalo station was more in line with the revenue distribution for stations of similar size, although Buffalo still specialized to a greater degree in terms of spot revenues than in the Cincinnati and Providence markets. In effect, Bill C-58 has necessitated Buffalo to rely more heavily on local advertising than on spot advertising and has effectively made the Buffalo stations more comparable to stations in similar U.S. markets. As for the sharp decline in the proportion of total revenues accounted for by spot in the Buffalo market, it would appear quite simple to argue that the decline was the result of Canada's Bill C-58. However, Bill C-58 did not come into effect until the fall of 1976 and thus it could not account for the steep 6 percentage point decline between 1974 and 1975 in the spot revenue share for the Buffalo stations. Thus, it is conceivable that a downward relative trend in spot revenues had begun that had nothing to do with the impact of Bill C-58.

(6) A further decline in the spot revenue shares between 1976 and 1977 was common to most markets, those in the largest seven as well those of similar market size to Buffalo. Hence, the combination of a longer-term decline in the spot revenue share on the Buffalo stations together with the special economic conditions in 1977 could just as easily have been responsible for the steep decrease in the spot revenue share for the Buffalo stations. It will be necessary at a later stage in this report to try to disentangle these longer-term trends; one simply cannot assume that the decline was the result of Bill C-58 alone.

(7) Burlington-Plattsburgh, unlike Buffalo, has not experienced a long-term decline in the spot revenue share for its stations. But its spot revenue share declined between 1976 and 1977 at a pace somewhat out of line with movements in the other markets of similar size, (Fargo Valley, Baton Rouge, Huntsville, Decatur and Johnston City). There can be no doubt that the abnormally high share of total revenues accounted for by spot sales in the Burlington-Plattsburgh market (as compared to other markets of sililar size) is the result of Canadian-placed advertising on the stations in these markets. The recently changed ratios, however, suggest that Bill C-58 has had little if any impact on the flow of Canadian-placed advertising revenues to the Burlington-Plattsburgh stations. Even if the entire decline from 53.2 to 50% in the share of spot revenue for the Burlington-Plattsburgh stations between 1976 and 1977 can be attributed to Bill C-58, this, as we will point out later on, implies a rather marginal decline in Canadian-placed advertising revenues on the Burlington-Plattsburgh stations.

(8) The share of total revenues accounted for by spot advertising in Erie, Pennsylvania does not appear to be out of line with the shares in the other two markets of comparable size, over the period 1973 through 1977. Hence, if there has been any negative impact on the Canadian-placed advertising revenues in Erie, Pennsylvania, the impact has been marginal at most and this is reinforced by the fact that any Canadian-placed advertising in Erie, Pennsylvania would have flowed from the London-Kitchener-Guelph market and not from the principal St. Catharines-Hamilton-Toronto-Oshawa area.

Our data explored the profit performances of the TV broadcasters in the various U.S. markets. These figures indicate that the profit rates earned in these various markets with some exceptions (Erie, Pennsylvania, e.g.) tend to be in line with the 25 to 30% profit margins recorded on average for the major Canadian markets.

What is of interest for this study is the fact that if one considers the second group of markets (Buffalo and comparably sized cities), it becomes evident that during the period 1972 through 1974 the profit margins for the Buffalo stations were well in excess of the profit margins recorded, on average, by the stations in the other markets. Indeed, in 1974, Buffalo stations recorded the highest profit margin, in all but one of these market areas - Detroit. In 1975, Buffalo stations posted the highest profit margin of all these market areas. These margins were comparable to the profit margins recorded by stations such as CFTO, CHCH, and CHAN in Canada.

The profit margin differences between Buffalo and markets of similar size, as well as between Buffalo and Rochester over the period 1972 through 1975, provide some rather strong evidence suggesting that the extra Canadian-placed advertising on the Buffalo stations considerably improved their overall profits. The introduc-

tion of Bill C-58 does appear to have had an impact on the profit margins in Buffalo in 1976 and 1977. Not that the profit margins have declined sharply over this period; indeed, with a profit margin of 30.3% in 1977, the Buffalo stations' profits still compare favourable with the margins earned in Canada. The introduction of the Bill seems to have halted the margin gains in Buffalo and, in effect, has brought Buffalo stations' margins in line with those in other markets.

In 1972, for example, the profit margin in Buffalo was anywhere from 7.5 to 17.5 percentage points above the profit margin in other comparable cities. To a large extent, the narrowing of the margin gap reflected more the growth and increased efficiency of stations in these other markets, rather than the sharply negative effect of Bill C-58 on the operations of the Buffalo stations. Bill C-58 undoubtedly did affect the profit efficiency of the Buffalo stations, but not all of the 4.4 percentage point decline in the average profit margin between 1976 and 1977 can be attributed to the impact of Bill C-58. In 1977, broadcasters experienced profit margin declines in most major markets and in two of the four markets of similar size in Buffalo.

The profit margins for the stations in Burlington-Plattsburgh were well above the profit margins in cities and towns of comparable size between 1972 and 1974. By 1977, however, the average profit margin was below that of Johnston City, but still above the figures recorded in the other three markets. In this market which serves Montreal, the profit margin in 1977 was above the figure recorded in 1975 and in line with the figures recorded over the 1972 to 1976 period. Hence, these figures once again imply that Bill C-58 has had a minimal impact on the financial situation of the stations in the Burlington-Plattsburgh market.

As to the performance of stations in Erie, Pennsylvania, these figures imply that the consistently low recorded profit margins between 1972 to 1977 period reflect basically poor management, rather than the impacts of Canadian policies to repatriate advertising expenditures.

We discovered above that general economic, political and other conditions favoured a more rapid expansion of television advertising revenues in 1976 than in any other year between 1974 and 1977 when growth moderated sharply. Of the markets examined, only Buffalo experienced an actual decline in revenues between 1976 and 1977, whereas in the other markets there was some positive growth.

The 1976-1977 decline in the Buffalo market revenues was the result of a sharp 20.1% decrease in spot advertising revenues. Once again, one could simply assume that the entire decline in spot revenues was due to Bill C-58. But Buffalo spot revenues had been relatively weak prior to 1976; indeed between 1974 and 1975, Buffalo spot revenues declined by 5.5%.

As suggested above, there appears to have been some longer-term factors at work as well as the impact from Bill C-58. Indeed, even in 1976, the expansion of spot revenues in Buffalo stations was small compared to the growth rates in other markets of similar size (in 1976 spot revenues increased by 12.4% in Buffalo as compared to a range of 32.3% in Providence to 59.5% in Portland, Oregon).

On the basis of some longer-term comparisons between Buffalo and the other markets, and the fact that total revenues in the Buffalo market experienced growth rates well below the growth rates experienced in markets of similar size over the period 1972 through 1976, one could argue that in the absence of Bill C-58, advertising revenues in Buffalo would have increased marginally greater than 12.4% in 1976 and would have remained constant or declined by 5 or 6% in 1977. These approximates can be used to calculate the loss of Canadian-placed advertising revenues in the Buffalo market. We leave these calculations, however, to a following section.

The Burlington-Plattsburgh market experienced a decrease in spot revenues in 1977; whereas the other similar sized markets all experienced increases in spot revenues. Moreover, in 1976 the Burlington-Plattsburgh stations experienced a rather sharp increase in spot revenues, an increase that did not appear to be out of line with the sharp increases recorded in the other markets. Hence, Bill C-58, if it had an impact in Burlington-Plattsburgh, only began to limit the growth (or perhaps even reduce the dollar value of spot revenues) in Burlington-Plattsburgh in 1977. This is somewhat unlike the Buffalo experience, where the negative revenue effects began occurring in 1976. Even with some potential adverse effects from Bill C-58, the average growth rate of total advertising revenues for the Burlington-Plattsburgh market over the period 1972-1977, was not dramatically lower than the growth rates in four markets of similar size. In contrast, Buffalo stations experienced an average annual growth rate in total revenues between 1972 and 1977 of only 3.8%, one-half of the rate of growth of the next lowest market, Providence, and just under 20% of the average growth rate for the most rapidly expanding market, San Diego.

In the Buffalo market, our figures imply that the slow growth in revenues necessitated a corresponding slow growth in broadcast expenditures. Indeed, the revenue growth appeared to impose financial constraints on the Buffalo stations and compelled them to engage in cost-saving schemes. It was the ability to control costs and become perhaps somewhat more efficient in their operations that permitted the Buffalo stations to maintain their relatively high profit margins over this entire period.

In the Burlington-Plattsburgh stations the average growth of broadcast expenses was above the prevailing rate of inflation between 1973 and 1977. Even though the growth rate declined from 16.1 to 7.9% between 1976 and 1977, the broadcast expense growth rate was still relatively high in this market. This is further evidence suggesting that Bill C-58 has had little impact on this market.

C. The Major Advertisers

During the course of this study, we examined the media allocations of advertising expenditures by the fifty leading national advertisers in Canada since 1974 of which 32 are foreign-controlled companies (see Table 34). If one were to list the 50 leading national advertisers in the U.S., one would observe some sharp differences from those in Canada. The overwhelming majority of the large private advertisers in Canada are foreign-controlled, but more important, the Canadian-controlled companies in this list are in the business of producing alcoholic beverages, are retailers, or are a collection of firms in no specific group of industries. In the United States, on the other hand, the 50 major national advertisers are domestically owned and include a heavy weight of representation in drugs, food, soap, automobile, oil and chemical industries.

In other words, the differences in the industrial background of the Canadian firms showing up on this list and the American firms on a comparable list in the U.S. reflect to a large extent differences in the structure of the U.S. and Canadian economies. The U.S. economy is strong in the manufacturing sector, and has many large multi-nationals operating within the industrial sector, while Canada seems to have its strength in the production of alcoholic beverages, retailing, and primary resources.

A review of the 1977 Canadian data reveals that, if one ignores the cigarette companies, in only one case did the proportion of total national advertising spent on radio exceed that spent on television -- namely, in the case of the Ontario Government. As for changes in media allocations, one notes that between 1976 and 1977, 31 of the advertisers increased their share of national expenditures on television, while 14 decreased their share; and that between 1975 and 1977, 34 advertisers increased their share, whereas only 11 decreased their share. As for radio, 13 companies increased their share and 32 decreased their share between 1976 and 1977.

<u>These relative media allocations seem to contradict the warnings by many, particularly from the advertising community, that the sharply higher TV advertising costs that would result from Bill C-58 would squeeze many advertisers out of television and to other media, such as radio</u>.

If any squeezing out has occurred, it definitely has not been towards radio. Bill C-58 could have repatriated some advertising funds from the American magazine market, but it is highly unlikely that magazines would have proven to be an effective substitute for television in terms of mass audience delivery.

As pointed out earlier in this study, 1976 was an extremely strong year for television advertising revenues in Canada. According to the data provided by Elliott Research, the national advertisers in Canada increased their expenditures on television by 27.4% in 1976. In 1975 the increase was 13.6% and in 1977 the increase was 13.3%. The strong growth figure for 1976 seem rather remarkable in light of the fact that the AIB limited the growth of avertising expenditures; and, while the real economic growth of the economy was just over 5%, it was not an exceptionally buoyant year for profits in Canada. The Olympics, the provincial elections in Quebec and Ontario, and

demonstration effect of the U.S., where large-scale increases in the advertising budgets of American corporations occurred might have been the key factors in sustaining advertising expenditures in Canada. Aside from these factors, we cannot adequately account for the rather dramatic increase in total advertising expenditures.

Advertising expenditures increases moderated in 1977 to one-half the 1976 pace, as the weak economy and the AIB had an effect of curtailing this activity. Nevertheless, the rate of growth in these expenditures was still above the overall growth in nominal GNP or consumer spending in Canada and somewhat high by historical standards.

The tracking of the growth in Canadian advertising expenditures since 1974 raises some interesting observations. In 1975, a rather weak year for the economy, advertising expenditures on TV in Canada grew at a rate comparable to 1977.

Superficially, one could argue that the 1977 advertising performance was to be expected in light of the prior two years' performances, and that indeed Bill C-58 did not have any significant effect on the overall growth in advertising expenditures by the leading national advertisers in Canada. However, as we have suggested before, it is conceivable that, in the absence of Bill C-58 and any resulting repatriation of advertising expenditures from U.S. border stations, these advertisers would have increased their expenditures at a much slower rate in Canada than the 13.3% gain recorded by Elliott Research. That is, by potentially shifting advertising funds from U.S. border stations to Canada, the decline in Canada's 1977 growth rate was moderated to some extent, on Canadian television, and obviously much sharper in the U.S.

As noted before, the pattern of growth rates of television advertising expenditures in Canada over the period 1974 through 1977 was similar to the TV pattern of advertising expenditure growth for the entire U.S. television industry. Thus, if one accepts the previous argument that the rather dramatic increase in 1976 reflected the spillover or duplication of behaviour of the parent corporations in the U.S. by the subsidiaries in Canada, then it would appear to be equally likely that the decline in Canada's growth rate in 1977 was also a spillover of U.S. trends. As a counterpoint to this argument, however, is the fact that the average decline of the Canadian dollar in 1977 decreased the U.S. dollar value of profits generated by its subsidiaries in Canada. Since advertising budgets are geared to sales and profitability of operations, the decline in the U.S. dollar value of sales and profits of Canadian subsidiaries might have also resulted in a decrease in their allocation of the total advertising budget of American multi-national corporations.

In addition, the Canadian economy performed more poorly than its U.S. counterpart in 1977, and as noted earlier, the AIB did impose limits on advertising expenditure growth rates in Canada.

In our view, in the absence of Bill C-58, the previously noted factors would have lmited the growth in television advertising expenditures in Canada in 1977 to around 10% (roughly the same rate of growth as pre-tax corporate profits, nominal GNP, and nominal consumer spending) rather than the experienced 13.3%. <u>The remaining 3.3 percentage point increase in growth could be attributable to the repatriation effects of Bill C-58.</u>

In other words, this calculation generates a repatriation of advertising expenditure of the order of $11.3 million in 1977 based on the Elliott Research figures.

The Elliott Research figures overestimate the actual expenditures on television by between 15 and 20%, since they use the posted rates rather than taking into account the various discounts, the seasonal variability of rates, as well as commissions and fees. Therefore, a more reasonable estimate of the possible repatriation effects of Bill C-58 in 1977 based on the Elliott Research data would be between $9.0 and $9.6 million in gross terms.

These rough calculations do not consider the possibility that sharply higher prices for advertising time on Canadian television stations might have also been responsible for the growth rate in total advertising expenditures not declining as sharply or more sharply than one would have expected. Of course, it could be argued that the higher advertising rates reflected the increased demands brought about by Bill C-58. Alternatively, they could reflect the higher costs incurred by Canadian stations. The latter explanation seems to be the more appropriate one for 1976 and 1977 because of the existence of the federal AIB in Canada.

Turning to the 50 leading advertisers in Canada, 26 experienced 1977 growth rates in television advertising expenditures below the 1976 growth rates, 15 experienced higher growth rates and 12 companies recorded absolute dollar declines in their 1977 advertising expenditures compared with 1976 levels. Seven firms posted advertising growth rates between zero and 10% in 1977, another seven experienced growth rates between 10 and 25%, and 18 companies posted growth rates above 25% in that year. In light of poor economic conditions in 1977, and the rather slow growth of sales even in nominal terms, such rapid increases in advertising expenditures (of over 25%) seem unusually strong.

Among the range of explanations for this unusual strength are the following:

(1) the acceleration reflects a structural change (perhaps a strategy to increase the importance of television as a medium for advertising by certain companies);

(2) the advertising money spent was due to sharply higher profit increases or the introduction of new products; or

(3) the acceleration of spending was the direct result of the repatriation effect by Bill C-58.

If we consider the 18 companies involved, we can easily exclude four as not being affected by Bill C-58; namely, the Government of Canada, Air Canada, CN, and Bell Canada. Of the remaining 14, it appears that in the case of McDonald's and American Express, competitive pressures explain their rather sharp increases of Canadian television advertising expenditures in 1977. Of the remaining 12 advertisers, Ford and Chrysler appear to represent situations of especially large sales and profit increases, abnormal when compared to the overall economy. The remaining 10 companies could have been influenced by Bill C-58. The firms in qustion are General Foods, Bristol-Myers, Lever Bros., John Labatt, S.C. Johnson, Dominion Stores, Beecham, Simpsons-Sears, CP, and Nestle.

Some rough calculations suggest that if half of the increase in advertising expenditures in 1977 for these 10 companies reflected a Bill C-58 repatriation effect, then a lower limit estimate of the repatriation impact of Bill C-58 would be in the range of $5.6 to $5.9 million in 1977 (using the 15 to 20% overestimation by Elliott Research).

To be more precise in using the data on national advertisers, we now consider the leading television advertisers in Canada in 1977 and examine their experience over the period 1974 through 1977. We have broken down the sample of 60 major television advertisers in Canada into the leading 40 foreign-controlled companies and the leading 20 Canadian-controlled firms or government bodies. Where possible, we have also recorded the U.S. expenditures of the 40 leading foreign-controlled companies over the same period.

The 10 largest foreign-controlled advertisers on television spent in total, according to the Elliott Research estimates, about $82.8 million in 1977, or just under 22% of the total expenditures made by all companies on television. The 40 largest foreign-controlled companies combined spent $159.6 million on television in 1977, or roughly 42.3% of total television advertising expenditures in that year. The proportion of total advertising expenditures accounted for by these 40 leading companies has remained relatively constant over the period 1974 through 1977, the only notable changes occurring between 1974 and 1975 when the proportion declined from 43.7 to 41.6%.

During the years critical to our analysis, total advertising expenditures by these 40 major television advertisers in Canada increased from $111.3 million in 1975 to $159.6 million in 1977 -- an increase of $48.3 million during this period. Between 1976 and 1977 the increase was just under $20 million.

The 20 leading Canadian-controlled companies or government bodies spent in total $60.4 million, or roughly 16% of total advertising expenditures in Canada in 1977. The 60 companies or government bodies combined spent an aggregate of $220 million or 58.4% of the total expenditures in 1977.

<u>A comparison of the television expenditures in Canada and the United States by leading advertisers provides a major reason why Canadian television has not been able to develop programming in quantity (or quality) approaching the U.S. level.</u> Proctor and Gamble, for example, the leading television advertiser in the U.S., spent $329.6 million on that medium in the U.S. in 1977. This figure was somewhat less than $50 million below the total amount spent by <u>all</u> companies on television advertising in Canada in that year.

In effect, one company in the U.S. spends on television almost as much as all companies combined in Canada. Obviously, with such dramatic differences in the scale of advertising expenditures by companies between Canada and the U.S., it becomes apparent that, even when one includes the $350 to $400 million of public funds that are infused into the CBC annually, American producers can undertake a much larger scale of experimentation with programs and can produce much larger quantities (and perhaps even much higher quality programs) than can the Canadian television system consisting of both the private and the public sector.

The head offices of the 10 major foreign-controlled television advertisers in Canada spent, in 1977, over $1.3 billion on advertising on U.S. stations. This figure is over 15 times the amount spent by these same companies in Canada in 1977. As one continues down the list of 40 foreign-controlled companies, it is apparent that for the overwhelming majority of these companies, their advertising expenditures on U.S. stations are generally more than 10 times the corresponding expenditures on Canadian television.

We doubt that the divergence from the 10 to 1 ratio between Canada and the U.S. reflects the so-called spillover effect. We believe rather that these dramatic differences simply reflect differences in the structure of the television industry between Canada and the U.S., that is, the greater availabilities of time and the longer historical familiarity with the television medium for advertising by companies in the U.S. In addition, these differences also reflect a lagging behind or, perhaps an even relative immaturity, of marketing strategies in the Canadian market as compared to the U.S. market.

Whatever the reasons for the frequent divergence from the 10 to 1 ratio, the important point that remains is that total television advertising expenditures in the U.S., while at an aggregate level more than 10 times the expenditures in Canada, were also in 1977 over $6 billion greater in absolute amounts than the expenditures in Canada.

Obviously, with a much larger flow of advertising revenues, the possibilities for programming are much greater in the U.S. than in Canada. One must also consider that even though, in terms of GNP and population, there is roughly a 10 to 1 relationship between the U.S. and Canada, in terms of the number of stations the ratio is less than 10 to 1 (in 1977 the ratio was 6.7 to 1). More specifically, in terms of the total number of separate hours of programming per week that is provided by the U.S. system and the Canadian system, the ratio is probably well below the 6.7 to 1 ratio in 1977. Even though Canadian stations do not have to provide 100% Canadian content and thus are able to buy a large number of American programs, they are still required to show Canadian programs for a large number of hours during the day. In the U.S. the duplication of a large number of programs, both in prime time and off prime time, by different stations across the country actually reduces the total number of independent hours of programming that are provided at an aggregate level by all stations in the U.S.

In other words, the ratio of total available programming hours between Canada and the U.S. is much less than 10 to 1, while the ratio of total advertising revenues available for investing in programming is well in excess of 10 to 1. These differences indicate one of the critical problems facing the CRTC in its objectives of attempting to achieve the goals of the 1968 Broadcasting Act and of attempting to shape policies that affect the Canadian programming and cultural content of Canadian stations.

Our data also reveal that the major television advertisers in the U.S. and Canada overwhelmingly specialize their advertising expenditures on the television medium. Twenty-three of the 40 companies spent 80% or more of their total advertising budgets on television in Canada in 1977. Of the other 17, all but one spent between 50 and 80% of their total budgets on the television medium. Comparable expenditure distributions for the same companies exist in the U.S.

CHAPTER III

III. THE FINANCIAL IMPACTS OF BILL C-58

A. Estimates of the Revenue Losses to U.S. Border Stations

In Table 1 we had listed a series of estimates of potential losses or actual losses in revenues by U.S. border stations. One source of data was a Price Waterhouse survey on 12 U.S. border stations affected by the bill. However, of the 12, only 10 responded and we have no indication which two did not respond although it is apparent that they were neither KVOS nor any of the Buffalo stations. According to the Price Waterhouse data, the gross revenues of the 10 reporting U.S. border stations declined from $18.9 million in 1975 (U.S.) to $9.2 million in 1977, a decline of $9.6 million in gross terms. Net losses, if one excludes payments of commissions to Canadian advertising agencies and payment for services to Canadian reps, were just less than $8 million. Net Canadian revenues in 1975 were $14.1 million (U.S.) while in 1977 they were just over $6.1 million. In Canadian dollar terms (adjusted for exchange rate movements), gross revenues declined from $19.4 million in 1975 to $9.8 million in 1977. Net revenues in Canadian dollars declined from $14.5 million to $6.5 million by 1977.

Mr. David Mulcaster of the CRTC has also provided us with a set of estimates of the revenue losses stemming from Bill C-58 for the U.S. border stations. According to his calculations, the Buffalo stations experienced a decline from about $9.3 million (U.S.) in gross revenues in 1975 to $3.7 million in 1977, a total decline of $5.6 million over this period, while the remaining stations saw their Canadian gross revenues decline from $4.7 million to $1.0 million.

The estimated gross losses for KVOS calculated by Mr. Mulcaster correspond quite closely to the actual figures provided by Wometco Enterprises. These lend some credence to his overall estimates for 1977. In aggregate, Mr. Mulcaster has estimated that gross Canadian revenues on U.S. border stations have declined from $21 million (U.S.) in 1975 to around $8.2 million in 1977, a total decline of $12.8 million (U.S.). This compares with the Price Waterhouse estimated decline for the 10 U.S. border stations over this period of $9.6 million (U.S.).

Part of the difference between these two aggregate figures reflects, to some extent, the fact that KCND in Pembina, North Dakota was not included in the Price Waterhouse sample and that two other stations were excluded. Hence, the aggregate losses reported by the Price Waterhouse survey do tend to underestimate the full extent of the losses experienced by the U.S. border stations. Thus, we would suggest that the range of revenue losses (unadjusted for growth) for U.S. border stations between 1975 and 1977 lies between the $9.6 million to $12.8 million figures, expressed in U.S. currency.

According to our discussions with officials for the three Buffalo stations and spokesmen for their reps in Toronto, the residual estimates for the 9 other stations (excluding KVOS) reporting to the Price Waterhouse survey appear to be underestimates of the actual Canadian-placed advertising revenues with these stations in 1977. That is, the total Canadian-placed advertising revenues in the Buffalo market in 1975 ranged anywhere between $10.0 and $10.5 million (U.S.). This figure differs from the Turetsky figure by between $700,000 and $1.2 million. This could reflect the fact that between 5 and 10% of these advertising expenditures were aimed at the U.S. market and not the Canadian market, and hence would not be subject to Bill C-58.

As a starting point in refining these figures, we utilize an aggregate gross revenue figure of about $9.5 million (U.S.) for the Buffalo stations. Our interviews in turn revealed that in 1976 the Buffalo stations had experienced a rather modest decline in their Canadian-placed advertising revenues. Indeed, it is clear that the announcement effect of Bill C-58 had an immediate negative impact, but it appeared to be more in terms of eliminating any growth in Canadian-placed advertising than in actually producing a decline in such revenues. Nevertheless, the interviews did suggest a modest decline in aggregate of about $0.5 million to $1 million. Hence, by 1976 the gross revenues for the Buffalo stations would have been somewhat between $8.5 million to $9.0 million.

By 1977 each of the three Buffalo stations had experienced a decline from the 1975 level of between 25 and 50%. Given the estimated 1975 revenues for the three major Buffalo stations and their revenue losses to 1977 (both sets of estimates based on information provided in our interviews), we estimate that in aggregate the Buffalo stations had $5.1 million in Canadian-placed advertising aimed at the Canadian market in 1977.

In 1978, the Buffalo stations were experiencing further declines in these revenues, ranging between 40 and 50% from the 1977 levels. Accordingly, our best estimate for the aggregate 1978 Canadian revenues for Buffalo is a figure in the range of $2.8 million. Thus, it appears that Bill C-58 will have produced a $6.7 million decline between 1975 and 1978 of Canadian-placed advertising expenditures in Buffalo.

The gross revenues figures for KVOS were provided by Mr. Mintz, the General Manager of the station. The data, however, combine both Canadian and locally placed U.S. advertising on KVOS. In 1975 Canadian revenues accounted for 90% of total KVOS revenues (according to Mr. Mintz), and so we record in Table 1 an adjusted estimate of $6.7 million for the gross Canadian revenues in the Bellingham market. The 1977 and 1978 revenue figures for KVOS were similarly adjusted to separate the Canadian revenues, and as well, a further adjustment was made to allow for some modest growth in the U.S. advertising revenue on the station. As a result, we estimate that Canadian-placed advertising revenues on KVOS were approximately $3.4 million in 1977 ($3.3 million less than the 1975 figure) and $2.4 million in 1978 ($4.3 million less than the 1975 figure).

Thus, for the three Buffalo stations and KVOS combined, their aggregate gross revenues have declined approximately from $16.2 million in 1975 to about $8.5 million in 1977 and $5.2 million in 1978. For the remaining stations an estimate of about $5.0 to $5.5 million for total gross Canadian revenues in 1975 would seem to be rather realistic in light of the figures estimated by Turetsky and provided to us in the interviews.

Since 1975, the station in North Dakota has gone out of business and has been sold to Canadian interests with a complete diversion of Canadian revenues of approximately $1.5 million (U.S.) to the Canadian market. In addition, in 1977 the Watertown signal was eliminated from the cable system in Ottawa, generating an estimated loss in 1978 of between $300,000 and $600,000 of Canadian-placed advertising revenues. As for the Burlington-Plattsburgh markets, the estimates obtained from interviews suggest relatively smaller losses in these markets with a Canadian revenue maximum estimate in 1977 of about $1.0 million.

In aggregate, then, the revenue losses between 1975 and 1978 for these other markets likely averaged around $4.0 million (U.S.). Thus, an aggregate $6.5 million estimate for 1978 Canadian revenues on U.S. border stations, is presented in Table 2. Our aggregate estimate for 1977 is $11.0 million. This latter figure is higher than the Price Waterhouse estimate (see Table 1) of $9.2 million. We suggest that this discrepancy reflects either the rough nature of some of the figures provided to the authors in the U.S. interviews with the principal broadcasters, or underestimation of the Canadian-placed advertising expenditures by the Price Waterhouse survey.

Part of the discrepancy also reflects the fact that two of the stations did not respond to the U.S. survey, but in our calculations this would only explain $200,000 to $250,000 of the difference.

While we do not want to suggest that the U.S. border stations deliberately underestimated their 1977 Canadian revenues (in the Price Waterhouse survey) so as to overestimate their revenue losses resulting from Bill C-58, it is conceivable that in responding to the survey, the station representatives had difficulty in isolating Canadian advertising aimed at Canadian audiences. Whatever set of figures is correct, (our estimate or the Price Waterhouse survey), both yield estimated 1975 to 1977 losses more or less in line with one another (when the Pembina figures are excluded); namely, losses in the $9.5 to $9.6 million (U.S.) range. Our total 1975 to 1977 estimated loss of $11.0 million (U.S.) falls between the Price Waterhouse estimate $9.6 million) and Mulcaster's estimate ($12.8 million).

Without allowing for any possible growth in Canadian-placed advertising on U.S. border stations that would have occurred in the absence of Bill C-58, we derive an estimate of the 1975-1978 revenue losses to U.S. border stations of about $15.0 million. (See Table 2.) We should add that this loss estimate is derived from data provided to us by KVOS, and from estimates that we have been able to complete from the various loss proportions emerging from our interviews with U.S. border stations. The $15.0 million loss includes losses stemming from the closing down of the Pembina, North Dakota station and the deletion of Watertown stations from the Ottawa cable system. In the absence of either of these two moves, the revenue losses would likely have been $1.0 to $1.5 million less than the $15.0 million estimated in Table 2.

As already noted, these estimated losses do not take into account the fact that there has been an increase in total advertising expenditures both in Canada and the U.S., and that in the absence of Bill C-58, Canadian-placed advertising expenditures on the U.S. border stations would have risen above the $21.5 million figure in 1975. This probability was confirmed in our interviews with the Buffalo stations. As well, Mr. Mintz did not deny the possibility that KVOS's revenues would have increased further in the absence of Bill C-58.

In one of our interviews, the general manager of a Buffalo station pointed out that over the period 1965 through 1975, Canadian-placed advertising revenues increased in line with the rate of increase of the company's total revenues - and that during the preceding five years, 1970 to 1975, Canadian advertising revenues had increased by over 10% per year. The same individual pointed out, however, that even without Bill C-58, the future

growth of Canadian revenues would not have been as rapid as in the past (ignoring the impacts of higher levels of inflation on advertising expenditures and the price of advertising time) because of the effects of increased fragmentation stemming from the introduction of two new stations in the Toronto market.

That is, he suggested that in the absence of Bill C-58, fragmentation would have resulted in a levelling off in the growth rate of Canadian-placed advertising, and that this would have been general across the U.S. border scene. According to his prognostication, total Canadian-placed advertising on the U.S. border stations would have risen from the $21.5 million estimate in 1975 to perhaps between $22 and $23 million by 1978.

That discussion, perhaps, resulted in an overestimate of the negative impact of fragmentation on the potential growth of Canadian-placed advertising revenues in Buffalo.[1] Hence, the figures in Table 2 include three different assumptions for the potential revenue growth to U.S. border stations in the absence of Bill C-58.

Specifically, we considered three different sets of assumptions for the Buffalo stations. The low growth assumption (average increase of Canadian revenue of 5% per annum) is in line with the growth of spot revenues in Providence, Rhode Island - a market comparable in size to Buffalo - and the station in that group that experienced the lowest average growth in spot revenues (excluding Buffalo) over the period 1972 to 1977. The high growth assumption (15% per annum) is in line with the average increase of spot revenue for Portland, Oregon, the city towards the high end of the spectrum among those other U.S. cities of similar size to Buffalo. The third assumption utilizes a growth in spot revenues of 20.8% in 1976 and 8.5% in 1977, the actual revenue growth rates for a major Toronto-Hamilton broadcaster and an additional estimated growth of 10% in 1977. These three sets of assumptions generate potential gross revenues for the Buffalo stations in 1978 of $11.0 million based on low growth estimates, $14.4 million based on the high growth estimate, and $13.7 million for the growth estimate which parallels the actual revenue increase of a greater Toronto-based broadcaster. The comparable estimates for 1977 are $10.5, $12.6 and $12.4 million respectively.

Thus, the realistic allowance for growth between 1975 and 1978 results in estimated losses to Buffalo ranging between $8.3 million and $11.6 million, about $2.0 million to $5.4 million higher than the loss estimates which assume that no growth would have taken place in Canadian-placed advertising expenditures in Buffalo over that time period. Our estimated losses between 1975 and 1977 range between $5.4 and $7.5 million when potential revenue growth is taken into account.

In the case of KVOS calculations, we used two assumptions: a low growth assumption of 5% per year, or alternatively, the actual growth rates of advertising on the CHAN-TV station in Vancouver in 1976 and 1977, and an arbitrary 10% growth rate for 1978. The growth of the total advertising

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[1] One of the main reasons we felt he had underestimated the revenue growth rate was his underestimation of the impacts of higher rates of inflation on advertising budgets.

revenues on CHAN for 1976 and 1977 were in line with the growth rates for advertising revenues for the entire private Canadian television industry. These assumptions generated estimated potential gross revenues on KVOS in 1978 of $7.8 million for the low growth estimate and $10.8 million for the high growth estimate. Using these low assumptions, we then derive estimated potential losses between 1975 and 1978, of between $5.4 million and $8.4 million for KVOS, losses $1.1 to $4.1 million greater than estimates which do not allow for growth.

For the Burlington-Plattsburgh markets, we have used as a low growth assumption a 12.8% annual rate of increase - the 1972-1977 growth experience of the stations in Johnston City, Tennesee, a market comparable to Burlington-Plattsburgh. A 22.3% rate was used as a high growth assumption, a growth rate in advertising revenues experienced by television stations operating in Baton-Rouge, Louisiana, another market of comparable size to Burlington-Plattsburgh. As a third growth rate assumption, the national advertising growth rate on CFTM in 1976 and 1977, and again our arbitrary 10% growth rate in 1978 was employed. These various assumptions yielded potential gross revenues in 1978 for the stations in these markets ranging between $3.7 million and $4.8 million. These figures yield a range of potential 1975-1978 losses of between $2.7 million and $3.8 million, $1.1 to $2.2 million higher than the no growth estimate for Burlington-Plattsburgh.

We used only one growth rate assumption for the Watertown and Pembina markets. For the Watertown estimate, we employed the 1976 and 1977 growth rates of total air time sales on CJOH in Ottawa. For Pembina, we accepted the 1976 and 1977 growth rates experienced by CKY in Winnipeg. The 1978 growth rate for both markets was assumed to be 10%. These assumptions yielded potential 1978 gross revenues, excluding the Bill C-58 impact, of $1.1 million for Watertown and $2.4 million for Pembina.

Thus, if we allow for potential revenue growth for the U.S. border stations between 1975 and 1978, the range of the estimated aggregate revenue losses (assuming that our $6.5 million estimates of the aggregate revenues actually received in 1978 is reasonable) is between $20 million and $27.5 million, expressed in U.S. currency. These figures compare with the estimate of $15.0 million based on the assumption of no growth. The 1977 potential losses range between $14.4 and $19.5 million (U.S.) as compared to the estimated $11.0 million loss based on a no growth assumption.

B. Estimates of the Repatriation of Advertising Revenues to Canadian TV Stations

The data in Table 2 serve as an appropriate starting point for estimating the advertising expenditures that possibly have been repatriated to Canadian broadcasters in 1977 and 1978. In order to convert the revenue loss figures in Table 2 into revenue gain figures for Canadian broadcasters, several factors have to be kept in mind. First of all, the revenue figures in Table 2 are presented in gross U.S. dollar terms. The revenue figures cited for Canadian broadcasters, either in total or for specific private stations, are in net Canadian dollar terms. Thus, one adjustment that is necessary is the conversion of the gross revenue figures into net figures by subtracting some fraction to represent sales representatives and agency fees and commissions. A 20% factor was used in these calculations. In our

interviews the figures for rep and agency fees and commission generally ranged between 18 and 24%, while in the Price Waterhouse survey the fees and commissions averaged between 19 and 22% of gross revenues.

Secondly, it is not likely that a $1.00 gross revenue loss for U.S. border broadcasters translated into a corresponding $1.00 gross revenue gain for Canadian broadcasters. For example, it seems reasonable to assume that a Canadian company advertising on television would be interested in the net after-tax cost of the advertising expenditure rather than in the pre-tax cost for this expendiure. Not only does this assumption seem reasonable, but it was also confirmed in our interviews with a few of the major advertisers in Canada.

Hence, in the case of a Canadian company which is in the 50% tax bracket, for example, in the absence of Bill C-58 tax effect it follows that the net after-tax cost of a $100.00 expenditure on advertising on U.S. border stations would be $50.00. Presumably this amount represents the amount of net advertising expenses that the company would desire to make.

If we observed that the company was spending $50.00 on advertising on U.S. border stations with Bill C-58 in effect, then without the tax deductibility for this expenditure the $50.00 would be a net after-tax expense for the company. As a result, since this amount is exactly equal to what the company desired to spend over and above its budget on Canadian stations, then there would be no repatriation of gross revenues from U.S. border stations to Canadian stations in this particular case.

If, however, the company had only spent $40.00 on advertising on U.S. border stations after Bill C-58 was introduced, then the difference of $10.00 in after-tax terms would have been repatriated in our particular example, to Canadian television stations. That is, if the company desired to purchase an additional $50.00 in after-tax advertising and it only spent $40.00 (not tax deductible) on U.S. stations, it would be left with $10.00 in after-tax terms to spend on Canadian stations. With a tax writeoff of 50% for advertising expenses incurred in Canada, the company would thus be able to spend $20.00 in gross terms on Canadian stations. Consequently, in this second case, the Canadian broadcasters would experience a $20.00 increase in their gross receipts.

If different corporate tax rate assumptions are employed, the estimated repatriation of gross advertising revenues from U.S. border stations to Canadian broadcasters would differ from the figures presented in the above example. It should also be pointed out that in the above example, we were implicitly assuming that even with Bill C-58 in place, the company in question would not change its overall advertising practices -- its desire to spend X dollars in after-tax terms in total on television or Y dollars in total on all types of media.

In more general terms, the gross revenues repatriated from U.S. stations to Canadian stations can be calculated using the figures in Table 2 by subtracting from either the no growth Canadian-placed advertising revenues of U.S. border stations or the expected growth-adjusted revenues of the stations, the actual revenues received grossed up for the average corporate tax rate of advertisers buying air time on U.S. border broadcasters. More

specifically, the estimated maximum gross revenues repatriated are equal to the estimated revenues of U.S. border broadcasters minus the actual revenues divided by 1 minus the average corporate tax rate. Again, this provides an estimate of the maximum number of gross U.S. dollars repatriated assuming that Bill C-58 did not result in any change in the advertising behaviour of companies.

It should also be pointed out that during 1977 there were a large number of contracts that were signed just prior to the passage of Bill C-58 that extended tax deductibility under a grandfather clause included in the Bill for a maximum of one year. Hence, in order to estimate the repatriated dollars in 1977, it was necessary to take into account that a certain proportion of the revenues actually received by U.S. border broadcasters in 1977 were exempt from Bill C-58 and thus a grossing-up was not required.

According to the Price Waterhouse survey data, about 55% of estimated Canadian-placed advertising revenues on U.S. border stations were exempted in 1977 because of the grandfather clause. Hence, only 45% of the actual revenues received by U.S. border broadcasters in 1977 had to be grossed-up for the corporate tax rate. The remaining 55%, in an unadjusted form, were deducted from the estimated revenues of these broadcasters.

A fourth factor to consider was the fact that during the period 1975 through to 1978 advertising revenues of privately controlled stations in the principal markets affected by U.S. border broadcasters were increasing quite rapidly despite the rather weak economy in Canada. As a result, it would be rather naive to assume that in the absence of Bill C-58, the revenues of U.S. border broadcasters would not have increased as well.

In our discussion of revenue losses to U.S. stations, we set out three sets of assumptions of possible growth rates in Canadian-placed advertising revenues for most of the markets affected in the U.S. In order to estimate repatriation of net advertising revenues to Canadian stations, it is necessary to accept one particular growth assumption for these calculations, and we used the corresponding figures to assumption C in the calculations in Tables 3 and 4. As noted elsewhere, the assumptions involve the actual growth in revenues at the major private station in the corresponding Canadian markets to each of the U.S. border markets -- Vancouver for Bellingham, Winnipeg for Pembina, Toronto for Buffalo, Ottawa for Watertown and Montreal for Burlington-Plattsburgh.

While it might be argued that the growth rates of air time sales on Canadian stations were biased upwards since there was some repatriation of advertising revenues from U.S. border stations, we in turn would argue that the bias, if it exists, is likely to be small. Four of the stations selected were privately-owned CTV affiliates and the fifth case was a TVA affiliate. According to our discussions with representatives for these stations, the general impression given to us was that none of them benefited to any extent from Bill C-58. If we accept their arguments at face value, this would suggest that they were neither positively nor negatively affected by Bill C-58. With the exception of Ottawa and Montreal, new stations in the other cities were playing an important role in these markets, and thus the growth rates of advertising revenues for these stations reflected the dynamics of the advertising market in these cities. As a result, it would seem reasonable to use their figures for the possible growth rates of Canadian-placed advertising revenues on the corresponding U.S. border stations.

Additionally, if one compares the cost of advertising time in the U.S. spot market to costs in Canada, one will discover that over the period 1975 through 1977 and 1977 to 1978, the cost of advertising time on Canadian stations increased much more rapidly than for spot time in the U.S. (The cost of advertising time on Canadian stations seemed to increase in line with the cost for network time in the U.S.) Even if the U.S. rates are adjusted to Canadian dollar terms, the rather large devaluation of the Canadian dollar in 1977-78 did not entirely offset the relative decline of U.S. spot advertising rates vis-à-vis Canadian television advertising rates. Even ignoring the possibility that U.S. border stations cut the rates to maintain a competitive position after the introduction of Bill C-58, it is apparent that the competitive position of U.S. border stations vis-à-vis Canadian stations would have improved in the absence of Bill C-58 based on the advertising cost trends. As a result, in the absence of Bill C-58, the growth rates of Canadian-placed advertising expenditures on U.S. border stations might have actually exceeded the corresponding growth rates on the major Canadian stations in the corresponding markets. In light of the above two arguments, it seems plausible to suggest that if there is a bias introduced in the calculations from using these particular growth rates, then the bias is more in the direction of underestimating the growth rate for Canadian-placed advertising revenues on U.S. border stations in the absence of Bill C-58.

Thus, combining the assumption C figures from Table 2, with the various tax rate assumptions allows the conversion of the gross figures into net revenue figures. We were then able to calculate the various estimates of the maximum repatriation of net advertising revenues.

In Table 3 we present the estimates in U.S. dollar terms. In Table 4 we have converted the repatriation estimates into Canadian dollars. To do this, we used the following exchange rate value expressed in terms of the number of Canadian dollars per U.S. dollar: 1975 - 1.025; 1977 - 1.065; and 1978 - 1.12. These exchange rates were the actual values prevailing at mid-year; that is, the June and July average rates.

For each U.S.-Canadian regional market, we estimated the net advertising revenue repatriation, assuming no growth from 1975 in Canadian-placed advertising revenues and assuming the assumption "C" growth rates from the 1975 base.

We suggest that the most reasonable figures are those calculated using the 40 or 45% average tax rate figure. In Canada the maximum corporate tax rate for manufacturing industries in Canada has been decreased in the last few federal budgets, and has most recently been set at 40%. At the same time many advertisers, particularly in the Vancouver, Montreal and Ottawa markets, are small business establishments taxed at the small business corporate rate of 27%. As a result, it would appear that the most plausible estimates of the maximum repatriation of net advertising revenues to Canadian stations would be for 1977 somewhere in the order of $12.4 million U.S. ($13.2 million Canadian) and in 1978 in the range of $16.6 million U.S. ($18.6 million Canadian).

These figures compare with estimates based on a no-growth assumption of about $5.7 million U.S. ($6.1 million Canadian) in 1977 and about $7.7 million U.S. ($8.6 million Canadian) in 1978. In effect, by ignoring the

potential growth in total advertising expenditures over this period, the 1977 repatriation estimates would be under-estimated by about $6.7 million U.S. ($7.1 million Canadian) and in 1978 by about $9 million U.S. ($10 million Canadian). From here on, the discussion is strictly in Canadian dollar terms (Table 4).

In the specific paired markets, our estimates are as follows: - a repatriation from the Buffalo to the Toronto market of about $4.7 million in 1977 and about $7.7 million in 1978. For Bellingham-Vancouver, the repatriation is in the range of $4.5 million in 1977 and $5.7 million in 1978. In the Burlington-Plattsburgh-Montreal case the repatriation is in the $1.9 to $2 million range in both 1977 and 1978; while for Watertown and Ottawa the repatriation is about $200,000 in 1977 and just under $1 million in 1978. In the Pembina-Winnipeg case, the selling of KCND in Pembina to Winnipeg interests resulted in the repatriation of the full amount of the expected Canadian revenues on that station, namely $1.9 million in 1977 and $2.1 million in 1978. We should add, however, that the additional $600,000 to $700,000 in repatriation of net revenues between Watertown and Ottawa between 1977 and 1978 was the result not of Bill C-58 but of the change in the cable signals in Ottawa from Watertown to Rochester. <u>This in turn translates into a total repatriation to the Canadian market for 1978 stemming solely from Bill C-58 of somewhat less than $18 million.</u>

In Tables 5 and 6, we present a set of detailed calculations which provide a rough measure of the net gainers and losers from Bill C-58. In these calculations we assumed an average corporate tax rate of 45% for all participants - the Canadian advertisers, the U.S. and Canadian broadcasters, and the Canadian agencies. In addition, we applied a 20% agency and rep fee or commission schedule to gross advertising revenues, and as well, we allocated 50% of the net revenues received by KVOS from Canadian advertisers to KVOS B.C. Limited, a Canadian company eligible for paying taxes in Canada. In addition, we ignored any additional cost to broadcasters associated with the revenues received from Canadian advertisers. That is, after allowing for agency and rep fees and commissions, we made no other assumptions regarding additional expenses that might have been incurred in attracting the advertising revenues or in dispensing of these revenues within the programming operations of the broadcasters. In essence, we assumed that the net revenues in question were totally incremental to the operating income of all the broadcasters concerned.

We will now discuss the actual estimates provided in Table 6. These figures are in fact based on data found in Table 5 which were converted into Canadian dollars. Focusing on the 1975 estimates, the $22 million in advertising expenditures at a 45% corporate tax rate would have resulted in a tax savings of $9.9 million in Canada and thus in a net cost to the Canadian companies of $12.1 million in 1975. As to the U.S. border broadcasters, they would have had to pay out about $4.4 million in fees and commissions to Canadian agencies and rep firms against the $22 million of Canadian revenues. On the remaining pre-tax income of $17.6 million in 1975, KVOS Bellingham would have paid $1.2 million in Canadian taxes on their net Canadian revenues of approximately $2.6 million in 1975, and combined U.S. border broadcasters would have paid out $6.7 million Canadian in U.S. taxes on the remaining net revenues accruing to the American operations. Once more it is important to note the assumption of a 45% tax rate for the broadcasters.

In 1975 then, U.S. border broadcasters' after-tax Canadian dollar income would have been $9.7 million due to the $22 million of Canadian-placed advertising. Canadian agencies and rep firms in 1975 would have received $4.4 million in commissions and would have paid out $1.9 million in taxes in Canada, leaving them with an after-tax income of $2.5 million.

The 1977-78 estimates for Bill C-58 were derived in a similar manner, incorporating assumption C figures from Table 2 converted into Canadian dollars. We observe that in the absence of Bill C-58, U.S. border broadcasters' pre-tax income would have been $25.3 million in 1977 and $29.2 million in 1978 on the Canadian-placed advertising revenues. The after-tax income of U.S. border broadcasters on these revenues would have been $13.9 million in 1977 and $16.1 million in 1978. The net after-tax income of the Canadian agencies and rep firms would have been $3.4 million in 1977 and $4.1 million in 1978.

The next series of columns in 1977-78 were estimated with Bill C-58 in place. According to the data in Table 2, we estimated the Canadian air time sales of U.S. border broadcasters in 1977 were $10.5 million U.S. and in 1978 $6.5 million U.S. These figures converted into Canadian dollars appear as the air time sales for these broadcasters for 1977 and 1978 respectively under the column entitled "With C-58". Calculations presented in Table 4 indicate that with the 45% tax rate assumption, the net revenue gains of Canadian broadcasters were $13.0 million in 1977 and $18.6 million in 1978. These figures are the pre-tax income figures reported for Canadian broadcasters in Table 6.

The pre-tax income figures for the Canadian broadcasters were grossed up to include commissions and thus the gross air time sales of Canadian broadcasters under our assumptions would have been $16.2 million in 1977 and $23.2 million in 1978. The combined gross revenue figures for U.S. and Canadian border broadcasters generate the total ad expenditures of Canadian advertisers in 1977 and 1978. Keeping in mind the grandfather clause provisions in 1977 and the fact that part of the expenditures on U.S. border stations in 1977 and all in 1978 were no longer eligible for tax exemptions, we were able to calculate the tax savings to Canadian advertisers for their advertising expenditures in both years. We find that the net cost to Canadian advertisers in 1977 and 1978 in the Bill C-58 case are exactly the same as they are in the non-Bill C-58 case, as should be expected. Consequently, for Canadian advertisers there is no gain or loss in terms of their actual after-tax dollar outlays stemming from Bill C-58, although it is possible that the efficiency of their expenditures declined since they were no longer able to purchase as many gross rating points with their advertising expenditures with Bill C-58 in place.

For the U.S. border broadcasters, the pre-tax income on the estimated revenues received in 1977 and 1978 with Bill C-58 in place were $9.0 and $5.8 million respectively. The pre-tax income represented declines of about $16.3 million in 1977 and $23.4 million in 1978 from the non-Bill C-58 case. In terms of after-tax income, the U.S. border broadcasters would have received $5.0 million in 1977 and $3.3 million in 1978 on their estimated Canadian-placed revenues. These estimates are $8.9 million and $12.8 million lower in 1977 and 1978 respectively than the figures in the non-Bill C-58 case. Once again, we remind the reader that our discussion has been relying on the Canadian dollar estimates.

We also observe in Table 6 that Canadian agencies experienced a decline in both their gross commissions and after-tax income as a result of Bill C-58. Canadian broadcasters, as expected, benefited in pre-tax income terms by $13.0 and $18.6 million in 1977 and 1978 respectively and in after-tax income by $7.2 and $10.2 million.

Once again the reader must be cautioned that the figures presented in Tables 5 and 6 are based on a whole set of assumptions. While we believe the assumptions to be reasonable, they are subject to a variety of estimating problems. As a rough approximation, estimating errors may range as high as 20% from the actual figures. Further, the net losses estimated for U.S. border broadcasters represent the maximum losses to them resulting from Bill C-58. Indeed, as a result of Canada's Bill C-58 and the losses of Canadian advertising business, U.S. border broadcasters were forced to aggressively search for new U.S. business. As a result, it is possible that new clients were found that previously did not use the television medium for advertising. Consequently, it is possible that a significant proportion of the lost Canadian-placed advertising revenues has been already replaced from other sources -- business incremental to the natural growth of these markets in the U.S.

In addition, in the case of station KVOS in Bellingham, rather drastic changes in programming were introduced which resulted in rather substantial cost savings to the station. The Buffalo stations experienced a very low total expenditure growth rate for broadcasters in U.S. markets of comparable size. Hence, Bill C-58 necessitated improved cost efficiencies for these stations and these in turn resulted in savings that offset the revenue losses stemming from Bill C-58. Thus, it would be incorrect to argue that the losses presented in Tables 3 to 6 for U.S. border broadcasters reflect, even in light of the estimating inaccuracies, the actual net losses for U.S. border broadcasters. As we have already stated, these figures represent maximum potential losses.

More realistically, the net U.S. station losses would be a fraction of those reported in Tables 3 to 6. In the absence of any specific information on additional adjustments, we suggest that the true net losses are probably no more than 20 to 40% of the figures reported in Tables 3 and 6.

As for the Canadian broadcasters, the estimated repatriated advertising dollars represent an upper limit to their revenue gains. It is quite conceivable that some fraction of the repatriated advertising dollars did find their way into other media. It is also possible that because of Bill C-58 and the reduction in the efficiency of advertising expenditures on Canadian television stations, the total advertising budget growth rates in Canada were cut back, and hence part of the repatriation was lost due to a slower growth of total advertising expenditures. A third possibility exists - that some or perhaps many of the American multi-national corporations operating in Canada circumvented Bill C-58 by reducing the advertising budgets or the incremental growth rate in the budgets of the American firms. By increasing the commitments to U.S. network and perhaps spots advertising, these multi-nationals could reach the Canadian audiences via U.S. border broadcasters and entirely circumvent Bill C-58. Consequently, the estimates presented in Tables 5 and 6 are likely to be the maximum repatriation gains experienced by Canadian broadcasters. And while once more we do not have any

concrete information on this matter, we would suggest that more realistic estimates would be somewhere in the neighbourhood of 50 to 75% of the figures presented in Tables 5 and 6. That is, in terms of net revenue gains (pre-tax income in terms of Table 6), Canadian broadcasters gained between $6.5 and $9.8 million Canadian in 1977, and between $9.3 and $14 million Canadian in 1978. In after-tax income terms the gains would be between $3.6 and $5.4 million in 1977 and $5.1 and $7.6 million in 1978.

Our next task is to provide some cross-checks as to the reliability of the various net repatriation estimates presented in Tables 3 to 6. We used two rough and ready checks on the net revenue repatriation to Canadian broadcasters for 1977. First, we calculated the percentage increases in total revenues, total national revenues, and total local revenues for all private television stations in Canada in 1975, 1976 and 1977. We then compared the growth rates for total revenues and total national revenue with the corresponding growth rates in nominal GNP in Canada. Total local revenue growth rates were compared with the growth rates for nominal consumer spending for the comparable years. These comparisons yielded some rather interesting ratios.

For example, the ratio of the growth rates of total net advertising revenues to nominal GNP was roughly constant between 1.55 and 1.60 for 1975 and 1976 growth rates. However, this ratio increased rather dramatically to 1.9 in 1977. Similarly, the ratio of the growth rates of total national advertising revenues to the growth of nominal GNP illustrated a relative constancy in 1975 and 1976 in the range of 1.6 to 1.65. But, once again, the ratio rose dramatically in 1977 to 2.3. The same pattern was detectable in comparing the growth rates of total local advertising revenues to the growth rates of nominal consumer spending.

In view of the general weakness of the Canadian economy in 1977, and the fact that advertising expenditures tend to have a high elasticity with regards to sales and profit growth -- increasing much more rapidly than sales and profits during an economic boom and declining much more rapidly during an economic decline -- we would have expected that in 1977 the ratios of the growth rates of advertising revenues to the growth in nominal expenditure components would have been at least equal to, if not lower than, the values in the preceding years. Hence we assumed that, at a minimum, if we simply accepted the average ratio for 1975 and 1976, and applied it to 1977, we could then derive an adjusted growth rate lower than the actual growth rate for total advertising revenues, total national and total local advertising revenues. The difference between the adjusted and actual growth figures would provide a further measure of the possible net revenue repatriation in Canadian dollars for the entire Canadian private broadcasting system.

As an example of this calculation, the 9.3% growth rate of nominal GNP in 1977 was multiplied by the 1.55 ratio to derive an adjusted growth rate for total net advertising revenues of 14.6% in 1977. This compared with the actual growth rate of 17.4%. The difference of 2.8 percentage points in these growth rates could be attributed to the impact of Bill C-58 in repatriating advertising revenues from U.S. border broadcasters to private Canadian stations. This 2.8% growth difference translated into a $7.6 million net advertising revenue gain for Canadian stations.

Performing similar calculations for national and local advertising revenues, we derive repatriation estimates of $8.4 million for national revenues and $1.4 million for local revenues. To make these latter two figures for 1977 consistent with the total figure of $7.6 million (above) would require that network advertising revenues were held back because of Bill C-58 and that as a result of a shifting in ad expenditures from network to national and perhaps local, Bill C-58 brought about a decline of $2.2 million in network-placed advertising in Canada in 1977. If one examines the pattern of growth rates for network advertising revenues in Canada, this does not seem entirely implausible, since there was a rather sharp reduction in the growth of network-placed advertising revenues in 1977 (a growth rate of 6.8%) as compared to a growth rate of 22.9% in 1976.

Thus, these rather simplistic calculations generate a further 1977 estimate of repatriation to Canadian broadcasters of $7.6 million. If we simply aggregate the national and local gains, the repatriation estimate is $9.8 million. It should be pointed out that the year-ends for private broadcasters are in August and thus for fiscal year 1977 the private broadcasters were still being affected by the grandfather provisions in Bill C-58. Hence, our estimates for 1977 are likely to be biased downwards, not only because of the assumptions that we have made but also because the last quarter of 1977 was excluded from the calculations and in that quarter the grandfather provisions had the least impact of any of the quarters in fiscal 1977. As a consequence, we would argue that our estimates of between $7.6 and $9.8 million should be adjusted upwards. The extent of the upward adjustment, however, cannot be determined.

A second rough and ready check was made using the television advertising growth rates of the major television advertisers in Canada in 1977. As we noted earlier, there was a remarkable similarity in the relative movement of growth rates in television expenditures in Canada and the U.S. by the major foreign-controlled companies. Thus, we assumed that in those cases where we could observe a rather dramatic departure in the growth rates in 1977 for the forty major foreign-controlled companies, that Bill C-58 must have been one of the factors, and perhaps the most important factor, accounting for the discrepancy. Obviously, other factors such as differences in the growth rates of sales and profits in the two countries and differences in marketing strategies in the absence of Bill C-58 could also have accounted for the differences in television advertising growth rates in Canada and the U.S.

On the basis of this assumption, we selected those companies for which the growth rate in television advertising expenditures in Canada exceeded the corresponding growth rate in the U.S., and also exceeded 10%, as the companies that were affected by Bill C-58 and did repatriate funds from U.S. border broadcasters to the Canadian market. To estimate the repatriation, we assumed that Bill C-58 was responsible for <u>one-half of the difference between the Canadian and U.S. growth rates</u>, if the U.S. growth rate exceeded 10%; or one-half of the difference between the Canadian growth rate and 10% if the U.S. growth rate for the company was less than 10%.

The group of companies that were thus assumed to be affected by Bill C-58 in terms of repatriating advertising expenditures from the U.S. to Canada were the following -- General Foods, Bristol-Myers, Kraft, Lever Brothers, S.C. Johnson, Ford, McDonald's Beecham, Nestle, Simpsons-Sears, Union Carbide, Nabisco, Playtex, American Express, Wrigley, Chrysler, Richardson & Merrell and Quaker Oats.

Performing the calculations described above generated a repatriation for these companies in gross terms of just over $6.5 million. In addition, in glancing over the Canadian companies, we observed rather dramatic changes in advertising growth rates between 1976 and 1977, or growth rates that were out of line with other companies in the same industries for Labatt, Irwin Toy and C.P. We also assumed that in these cases that Bill C-58 resulted in a repatriation of advertising expenditures; the estimate was derived by taking one-half of the difference between the actual growth rate in 1977 and 10%. These calculations generated an additional repatriation for these three companies of $1.1 million for a total gross revenue repatriation of about $7.6 million for all of the companies involved. In net terms this translates into a repatriation of just over $6 million Canadian in 1977. This repatriation would be primarily for national advertising expenditures and would exclude repatriation by smaller companies that would appear under local advertising revenues for Canadian broadcasters. This $6 million figure, which excludes a large number of foreign-controlled companies as well as Canadian-controlled companies, is only $2.4 million below the estimate derived using the net advertising revenue figures for all private Canadian television stations.

If instead of identifying only those companies in which the Canadian growth rate not only had to be in excess of the U.S. growth rate, but also in excess of 10%, we include as well those companies for which the Canadian growth rate in television advertising expenditures in 1977 exceeded the corresponding growth rate in U.S. television, we expand our list and arrive at a gross revenue repatriation, including the three Canadian companies, of $9.5 million in 1977 (a net figure of $7.6 million). While the estimates based on company advertising expenditures are very tentative, they do seem to be consistent with the estimates arrived at using the net revenue figures for Canadian television stations and tend to lend some credence to an estimate for repatriation in terms of national revenues of somewhere in the order of $7.5 to $9 million in 1977.

Adding to this figure a repatriation of perhaps $1 to $2 million for local revenues generates an approximate repatriation of net revenues of somewhere between $8.5 and $11 million in 1977. These figures in turn are not drastically out of line with the estimates obtained in Tables 4 and 6, using Canadian station growth rate assumptions and tax rates in the range of 40 to 45%.

Indeed, our previous argument that the figures in Tables 4 and 6 represent a maximum repatriation to Canadian broadcasters, in light of these further calculations, holds. It would appear reasonable that private Canadian stations, in total, received a net repatriation of Canadian-placed advertising revenues from U.S. border stations of somewhere in the range of $9 to $10 million in 1977. For 1978 we have no other basis for comparison and thus we would have to argue that the net repatriation is somewhere in the range of $12 to $15 million.

The discussions held with Canadian broadcasters and with agency representatives implied that the main beneficiaries of any repatriation of advertising dollars to Canada were the five most recently licensed stations in Canada; namely, CKVU in Vancouver, CITV in Edmonton, CKND in Winnipeg, CKGN and CITY in Toronto. Thus, the figures in Table 7 set out some selected data highlighting annual dollar increases in revenues and selected program categories for the five stations combined.

Total air time sales in these five stations increased by just under \$11 million between 1975 and 1976, and just under \$14.3 million between 1976 and 1977, representing a total increase between 1975 and 1977 of \$25.2 million. This total increase over the period 1975 through 1977 compares with the estimated net repatriation to Canadian broadcasters in 1977 of between \$10 and \$12 million. If these five stations were the only ones to have benefited from Bill C-58 and the \$9 to \$10 million estimate for 1977 is reasonable, then it would suggest that Bill C-58 generated a repatriation of advertising funds equal to about 40% of the absolute dollar increase in the air time sales of these five new stations over the period 1975 to 1977. As is noted below, an examination of the growth rates of air time sales for the selected private stations in the major markets, as well as the absolute dollar increases in air time sales for the major markets, suggests that these five stations were not the only ones to have benefited from Bill C-58. As a result, the \$9 to \$10 million estimate for repatriation of net revenues to Canada in 1977 seems to be a fairly reasonable figure.[1]

Even if the full \$9 to \$10 million did not accrue to these five stations, a rather substantial proportion of this amount must have been repatriated. The importance of such incremental repatriated revenues to these Canadian stations stands out when one considers the absolute dollar increases in operating income over this period. For example, over the 1975-76 period, operating income at these stations (with the exception of CKVU which was not in operation until August 31, 1976), increased by \$6.3 million or 57.5% of the total air time sales increase. In 1976-77, operating income rose another \$2.5 million or 17.5% of the total dollar increase in air time sales. (Operating income did not rise as rapidly in 1977 as compared to 1976 because CKVU came on stream in 1977 and new stations generally show a dramatic loss in the first few years of operation.) Over the entire 1975-1977 period, the operating income for the five stations combined increased by \$8.8 million or by just under 35% of the total dollar increase in air time sales.

We point out that a rather substantial proportion of this increase in operating income over the period 1975 to 1977 can be attributable to the additional revenues flowing to these stations because of the repatriation of advertising dollars from U.S. border stations. The operating income figures and ratios are consistent with the argument that we made in the construction of Table 6 that a significant proportion, if not the entire amount, of the repatriated net revenues flowed directly into operating income.

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[1] Station CITV is included with the other four in these figures, even though the Edmonton market was not losing any advertising revenue to a U.S. border market. The rationale is that Canadian advertisers were to some extent forced by Bill C-58 to increase their advertising outlays in Canada at the expense of their purchases of air time sales in the U.S. They then found it worthwhile in a marketing sense to increase their purchases of air time salas in the Edmonton market, particularly since Alberta was the most rapidly growing province during this period.

As for program expenses over this period of time, the five stations increased these expenditures by just over $10 million (about 40% of the total increase in air time sales) between 1975 and 1977. It seems probable that in the absence of additional repatriated revenues that the stations would have been forced to curtail their program expenditures in order to turn around their profit position and hence there would have been much less than the $10 million expended on programming.

An examination of our data regarding the absolute dollar increases in air time sales for the private stations in the major Canadian markets, as well as the annual rates of growth in air time sales, reveals that some of the other stations in the major markets may have also benefited from the repatriation of advertising revenues. Although in our interviews spokesmen for the CTV affiliates, as well as for CHCH and CFTM, denied that they gained from Bill C-58, our analysis seems to suggest otherwise.

We now compare our estimates, by market, of the net revenues repatriated from U.S. border stations to the Canadian market with the absolute dollar increases of air time sales of the five most likely affected stations, as well as the two others listed above. In the major Canadian markets we suggest once more that a $10 million estimate for repatriation in 1977 seems reasonable. For example, in the Toronto market a $4-$5 million estimate for 1977 compares with a total increase in national air time sales of about $12 million and an increase for CITY, CKGN and CHCH of $9.3 million. These figures suggest that a more reasonable estimate of repatriation for the Toronto market would be in the $2.5 to $3 million range for 1977, somewhat below estimates in Table 4. In the Vancouver case, the estimated repatriation is $4.2 million. According to CKVU officials, a comparison of their actual performance to their predicted performance during the first year of operation, as presented in the financial estimates supporting their applications for a licence, reveals that Bill C-58 enabled them to earn an additional $2 million in revenues. Hence, if we accept this estimate, it would suggest that the 1977 net repatriation in the Vancouver market was around $2 million, rather than the $4.5 million figure provided in Table 4.

In the Montreal market, the estimated repatriation was in the order of about $1.9 million. However, representatives of both CFTM and CFCF denied that their stations gained as a result of Bill C-58, but they were unable to provide the authors with any conclusive evidence on the subject. A review of the absolute dollar increases in air time sales for these two stations, as well as of the growth rates in air time sales, implied that by and large the officials were correct. Hence, we would argue that repatriation in the Montreal market amounted to no more than $500,000 to $600,000 in 1977. In the Ottawa market, our estimate of $200,000 of repatriation in 1977 seems to correspond with their absolute dollar increases and growth rates in air time sales and thus would appear to be reasonably accurate.

As for the Winnipeg market, the closing down of station KCND in Pembina and the establishment of CKND most likely resulted in the full repatriation of the actual revenues, as well as the incremental growth revenues that would have accrued to KCND in the absence of Bill C-58. Thus, the estimate of repatriation of about $1.9 million to the Winnipeg market appears supported by the revenue figures for CKND as well as for the marginal gains recorded by CKY. Further, as noted earlier, the newly licensed (1975) Edmonton station obviously gained to some extent from Bill C-58. Although

there was not a direct repatriation from a corresponding border station to this Edmonton station, there was likely a flow of repatriated dollars from the other markets through the national advertisers to CITV in Edmonton. In light of the revenue gains of CITV since its inception in 1975, it would seem plausible to argue that at least $1 million of their gains was the result of a repatriation brought about by Bill C-58.

The latest estimates for the specific markets generate a total repatriation figure ranging between $8 and $8.6 million, roughly $1.5 to $2 million below our best guess-estimate of $10 million. It is important to note that the Canadian station revenue figures concluded with fiscal year 1977 - or on August 31st of that year. The estimates provided in Tables 3 to 6 were based on a full calendar year for 1977. According to the Price Waterhouse survey data, just less than 8% of the total Canadian advertising revenues on the U.S. border stations in the fourth quarter of 1977 were covered by the grandfather clauses. At the same time, the fourth quarter of each calendar year is the heaviest advertising period for most stations. Hence, these two factors likely resulted in the underestimation of repatriation of net revenues based on a market by market comparison of between 10 and 20%.

Taking the above adjustments into account, a new 1977 estimate of repatriation ranges from $8.8 million on the low side to $10.3 million on the high side. While these figures present a more accurate measure of the repatriation of net revenues to Canadian broadcasters, they do not take into account the possibility that some of these revenue gains may have come about by a reallocation of advertising budgets from smaller Canadian markets to the major stations in the principal Canadian markets. As a result, there may be some upward bias in these estimates as well. Therefore, once more one could argue that these repatriation figures represent the upper limit estimates of the repatriation of advertising revenues brought about by Bill C-58, at least for 1977.

C. Other Impacts of Bill C-58

(a) Programming and the Cultural Objective

This study indicates that Bill C-58 did achieve at least in 1977 and 1978, one of its principal objectives - the redirection of advertising expenditures from U.S. border broadcasters to Canadian broadcasters, particularly to the newly licensed stations. While there might be disagreement over the exact dollar amount of repatriation and the long-term duration of these flows of funds, it is clear that repatriation has in fact occurred. However, there is likely to be much more debate over whether Bill C-58 has accomplished its secondary objective, the so-called cultural objective of increasing expenditures on Canadian programming and increasing the quantity of Canadian programming available in this country.

One of the principle arguments raisd by the U.S. border broadcasters was that the Bill C-58 would not achieve the cultural objective. That is, even if repatriation occurred, the amounts involved would be rather trivial as compared to the total advertising revenues received by Canadian broadcasters and their rising outlays on the expensive syndicated shows imported from the U.S. For example, using

the $13.2 million repatriation estimate of net revenues to Canadian broadcasters in 1977, as presented in Tables 4 and 6 again keeping in mind that this figure may be $3 to $4 million above the actual sum of repatriated money - and comparing it to the total air time sales of private broadcasters in Canada during 1977, one observes that repatriated revenues comprised under 4% of total advertising revenues in 1977. If indeed there is an upward bias in the $13.2 million figure, and considering the fourth quarter of 1977 year-end impact on repatriation revenues, the actual ratio is likely to be closer to 3%. Obviously, repatriated advertising revenues comprised a rather small proportion of total air time sales in Canada in 1977.

But the authors have argued that a large proportion of the repatriated amount comprises an incremental gain to the operating incomes of the Canadian stations. Once again, the $13.2 million net revenue repatriation figure for pre-tax operating income of all private broadcasters in Canada in 1977 represents just over 20% of incremental revenues. Using the lower repatriation figures cited earlier, the incremental ratio was in the range of 17.5 to 18% in 1977. Comparing the after-tax income estimate of $7.2 million in 1977 (see Table 6) to the total net after-tax profit for all private broadcasters in Canada in 1977, the ratio is also in excess of 20%. (Adjusted, the ratio would be about 18%.)

Although as a proportion of total revenues the repatriated dollars may seem small, in terms of operating income and after-tax profits, the flow of repatriated advertising revenue is rather significant.

Moreover, when the repatriated dollars are considered against the performance of the five newly licensed stations in Canada, one concludes (see Table 7) that the turnaround in the profit performance of these stations must, to a considerable extent, have been the result of the repatriation triggered by Bill C-58. While CITY in Toronto would likely have prospered because of its location in a growing market, and CKGN was beginning to turn the corner because of its ability to improve its ratings, the revenue gains for both stations accelerated in response to Bill C-58. As for the other three stations, at this point their survival, in our view, depends entirely on Bill C-58 and the repatriated revenues. That is, the repatriation effect allows these stations to generate the extra required funds needed to purchase and produce programs which potentially could result in an increase in their ratings in their key markets.

The creation of five new television stations in Canada together with the 60% Canadian content rule guarantees an increased volume of Canadian programming. Even if ratings are rather dismal at first, the increased fragmentation brought about by these new stations will also ensure an increase, albeit a marginal one, in the viewing of Canadian programs by Canadian viewers.

While Bill C-58 through its repatriation effects has most likely resulted in an increase in the volume of Canadian programming (or at least has provided the revenue base to sustain an increased volume of Canadian programming) there is still one further dimension related to

the cultural objective. This report notes (see Table 7) that there was a rather large outflow of funds from Canadian broadcasters to Hollywood producers for the purchase of U.S. syndicated programs and movies between 1975 and 1977. For example, of the $25.2 million of additional air time sales received by the five stations over the period 1975 to 1977 (see Table 7) 16.3% ($4.1 million) went into domestic programming expenses while over 20% or just under $5.2 million went towards the purchase of feature films and syndicated programs, the majority of which were purchased in the U.S. Total program expenses of the five stations increased by 40% ($10 million).

Our data indicate that several stations spent a rather significant proportion of their additional revenue gains on the purchase of syndicated programs and feature films in 1977. According to our interviews, the major increases in expenditures for U.S. programs occurred for the 1977-1978 and 1978-1979 seasons -- periods not covered by our data. Indeed, some rough estimates based on our interviews would place the incremental outflow of Canadian purchases of U.S. programs for the 1977-78 and 1978-79 series at anywhere between $10 and $25 million in total for this two year period. These substantial additional outflows represented both a marginal increase in the number of American programs purchased, but more importantly, a rather sharp increase in the price of these programs.

Once again, we were informed of increased competition within Canada between some of the newly licensed stations and the existing stations for U.S. programming. The increased competition for U.S. programming by CKGN, CKVU, and CHCH was necessitated and stimulated in part because of the additional revenues generated by Bill C-58. Thus, it is conceivable that while Bill C-58 did generate a substantial repatriation of advertising revenues from U.S. border stations to Canadian broadcasters, at the same time, because of the intensified competition, a substantial proportion of these additional revenues flowed back to the U.S. to purchase American programs.

One must add the caveat that even if the net repatriated revenues to Canadian broadcasters net out revenue gains adjusted for increased u.S. expenses, at zero or close to it, their improved ability to compete more effectively for the Canadian audience would ensure their long-term financial success. Thus, this short-term reflow of funds back to the American market, while it appears to be inconsistent with the cultural purpose of Bill C-58, may strengthen the Canadian television broadcast industry over time and provide the additional revenues required to produce higher quality Canadian programs. There is also the possibility that the increased competition for U.S. programs might increase the Canadian costs so dramatically that several of the newly licensed Canadian stations will find their financial stability threatened. At this point, it is difficult to assess which of these two potential long-run scenarios is the most realistic.

As for the actual increases in the costs of American programming, we were provided with a rather wide range of estimates in our interviews. For example, a broadcast industry analyst with a brokerage firm pointed out that U.S. programming costs had increased by about 25 to 30% per year since 1974 as compared to about 10% increase

per year for Canadian programming costs. Spokesmen for CHCH also suggested that U.S. programming costs had more than doubled during the previous two years while Canadian programs had increased in price by about 15% per year during each of the past three years. Similar figures were bandied about by officials for most of the major Canadian stations -- suggesting average increases of about 40-45% per year for U.S. programming during the past two to three years, and increases for Canadian programming of between 10 and 25% per year.

While the sharply higher prices for U.S. programs were generally attributed to the increased competition among Canadian broadcasters, particularly in light of the creation of the Global network as well as interrelations set up among independent stations in Canada, our discussions with Hollywood producers as well as an examination of the programming costs incurred by U.S. networks suggested that increased competition in Canada played only marginal role in these cost increases. According to the U.S. producers of these shows, the actual costs of producing new network series had risen about 25 to 30% per year since 1975. This figure seems to correspond with the actual increases recorded by the three U.S. major networks for the purchases of the syndicated programs. Add to these U.S. price hikes the effects of the devaluation of the Canadian dollar, and one comes up with a cost-related increase of about 35 to 40% per year. Obviously, additional Canadian competition could only account for a small increment in these total cost increases the Canadian stations faced.

On the other hand, the price escalation of U.S. produced movies -- not those produced primarily for television -- has been rising at about a similar rapid rate in recent years. Here again, increased competition in the Canadian market could only have accounted for a small proportion of the higher prices paid for U.S. produced feature films. These observations then would suggest that even if Bill C-58 in effect enabled existing stations in Canada to compete more aggressively for U.S. television programs, that this was not the principal factor accounting for their much higher prices and the rather sharp increases in the outflow of dollars to the U.S. producers.

It should be emphasized that the cost increases for American programs referred to are primarily for new series and generally not for packages of reruns of past series. Thus, Canadian broadcasters could control, to an extent, the cost of American programming by judiciously combining purchases of new syndicated programs with old line syndicated programs.

Indeed, when we attempted to obtain some direct estimates of the increased cost of American programming using data for CHAN in Vancouver, we were struck rather quickly by the complexity of the entire exercise. Not only do programs differ in terms of the number of original showings and reruns available, but there are also rather dramatic price differences between new and old programs, half-hour programs for prime time and off prime time, and half-hour and hour programs. If one simply takes differences in the total expenditures for U.S. programmings from year to year, such calculations will most likely not correspond to the actual increase in the average price for American programs.

(b) Impact on Smaller Canadian TV Markets

A standard argument raised by both U.S. broadcasters as well as advertising agencies in Canada was that Bill C-58 would have two detrimental impacts on the Canadian market:

(1) It would force some companies off television as an advertising medium, particularly smaller, Canadian-controlled companies; and

(2) The larger advertisers, faced with sharply higher prices for time on television, would cut their market list, eliminating or sharply reducing their expenditures for advertising in smaller Canadian television markets.

With regard to the first possibility, an examination of the data for the private Canadian stations and for the combined results in the major markets suggests that, with the exception of the Toronto market, there does not seem to have been any squeezing out of locally placed advertising. Only in the Toronto market did locally placed advertising revenues decline betwen 1975 and 1977. In all the other major markets, the increases in 1976 and 1977 were in line with increases in previous years and in some cases there appears to have been more buoyant growth to locally placed advertising revenues as compared to national revenues. Thus, if a squeezing out did occur in local advertising in the major markets, it is likely to have been restricted to the Toronto case. Indeed, in this market, local advertising has generally accounted for a rather small share of the total air time sales, as time availabilities appear to have been tight for some time in Toronto and Bill C-58 simply tightened the availabilities even further.

In view of the relatively low expenditures on local advertising in the Toronto market, and considering the argument that some of the smaller markets in Ontario might have found their national advertising revenues reduced because of Bill C-58, one would have thought that there would have been a shift of local advertising from the Toronto market to those smaller markets adjacent to Toronto (such as Kitchener, London, Guelph, Barrie, Peterborough, etc.) Indeed, our data indicate that local revenues in the Ontario market outside Toronto did increase in 1977 as compared to a decline in 1976. However, the increase of just under 11% was well below the average increase for local advertising sales in the entire Canadian market. Thus, if there was a shift of local advertising, the shift was rather minimal and may have been to another medium.

There is one further possibility. Perhaps the Ontario market for television advertising time is peculiar when compared to markets in other areas of Canada and North America. Although we are hard-pressed to think of any reasons why such a structural difference should exist between the Toronto-Ontario market and other markets in North America, this is a possibility. In general, we suggest that Bill C-58 repatriation of advertising may have exacerbated the local time situation in the Toronto and other Ontario markets. But clearly

the relative unimportance of local advertising in Toronto is not the result of Bill C-58, but rather is a phenomenon that has been well established prior to the introduction and passing of this bill.

Our data seem to suggest that some local markets were adversely affected by Bill C-58. A review of the annual growth rates of nationally placed advertising in the major and minor markets in Canada sheds light on this particular issue. In 1976 the Manitoba-Saskatchewan and Edmonton markets experienced the most rapid growth in national advertising revenues. The former was primarily a consequence of the establishment of the station CKND; while in the Alberta case, growth was rapid due to the continued growth of CITV in Edmonton. In 1977 the most rapid rates of growth were experienced in Alberta and the B.C.-Yukon region - in this latter case, rapid growth was associated with the establishment of station CKVU in Vancouver. A review of these national advertising revenue growth rates across the principal regions of Canada suggests that there has been some shift in national advertising from Quebec, the Atlantic Provinces and Ontario towards Western Canada.

But a closer examination of the data in the regional markets subdivided by major and minor market areas, indicate that in 1976 and 1977 the most rapid growth rates occurred in the major markets. Substantially lower national advertising growth rates were experienced in the minor markets. For example, the growth rate of nationally placed advertising in the Toronto market has been well above the national average, and generally 2 to 4 times greater than the growth rate for the markets outside of Ontario. These relative values suggest that there has been some shift of national advertising expenditures from the smaller Cnadian markets towards the major Canadian markets, in addition to a shift of advertising from Eastern and Central Canada to Western provinces. Similar differences among major and minor markets and given regions are also apparent for locally placed advertising expenditures, but the differences are not as dramatic as they are in the national air time sales category.

In 1976 and 1977 national air time sales was the most rapidly growing category of advertising expenditure while network sales lagged far behind in 1977. This latter observation suggests that, as a result of Bill C-58, there has been a reduction in the relative commitments to network advertising. Major advertisers have found it necessary to increase their allocations to the private stations in the major markets so as to meet their rating point target goals for the major markets. Combining these various observations, regional implications that seem to have emerged as a consequence of Bill C-58 are the following:

(1) There has been a move, primarily by the major national advertisers, to reduce their advertising commitments to networks;

(2) Major advertisers have increased their commitments to the private stations in the major markets;

(3) They have also increased their commitments to the more rapidly growing areas of Canada and to the new stations in these markets; and

(4) They appear to have cut back their allocations to the smaller Canadian markets.

It appears, then, that part of the advertising revenue gains recorded in the major markets by the private stations came at the expense of the smaller markets and at the expense of the CTV and perhaps the TVA networks. This represents one further reason for suggesting that the repatriation estimates provided in this study are maximum or upper limit figures, for they do not take into account this shifting amount of budgetary allocations by the advertisers.

The major Canadian losers over this period seem to have been the private broadcasters in the smaller Ontario markets. Part of their problems, though, can be traced to other factors - such as the creation of the Global Network and the licensing of CITY-TV in Toronto. The establishment of these stations and the Global Network siphoned off advertising revenues that would have entered into the adjacent markets, advertising dollars that were aimed to a large extent at the audiences in the Hamilton-Toronto-Oshawa area. The only other major losers appear to have been the private broadcasters outside of Montreal in Quebec and then only in 1977. The magnitude of the losses to these stations is hard to measure, but as an indication we can point to one Ontario station which, prior to the introduction of Bill C-58, recorded an increase in total air time sales of about $1.3 million in 1976, or 26.6%. In 1977 their air time sales increased by just under $20,000, a nominal increase of 0.3%. According to an official at the station, this was the first time in six years that growth of air time sales had been flat. However, by 1978 their air time sales growth rate was back on track and most of the lost revenues in 1977 had been made up in 1978.

Without precise figures for 1977 and with no figures for 1978, all we can suggest is that the negative impact was most likely in the range of 5 to 15% of the net repatriation of advertising revenues from U.S. border stations to the principal Canadian markets. In other words, in 1977 the major markets benefited to the extent of about $10 million in terms of repatriation with perhaps $0.5 million to $1.5 million representing the reallocation of budgetary expenditures by major national advertisers from the smaller Canadian markets to the major markets. It should be added, however, that while the national revenues flowing towards the smaller markets were most likely adversely affected (perhaps to a lesser extent in 1978) by the impact of Bill C-58, these markets could have compensated for the revenue moderation by attracting local advertisers more vigorously.

By and large this seems to have occurred. Indeed, only the B.C.-Yukon market outside of Vancouver experienced a sharply lower growth rate in local air time sales than the Vancouver market -- but this can be entirely accounted for by the establishment and inclusion of the first year operations of CKVU.

Hence, the reallocation of national advertising expenditures by the major advertisers in Canada most likely had a bumping down effect in terms of forcing broadcasters in smaller Canadian markets to attract or more aggressively compete for local advertisers. As a

consequence, the financial losses incurred (in most cases there was not necessarily an actual decline in the revenues received but rather a reduction in the revenue growth rate) are likely to be much smaller than what is indicated by an examination restricted to the national air time sales of these statios. Thus, while it appears plausible that some revenue reallocation has occurred, its effect was partly by a mitigated bumping-down effect.

(c) Price of Advertising Time

Did Bill C-58 increase the demand for the already tight availabilities in the major Canadian markets and result in strong pressure on prices, forcing many advertisers off the television medium into other substitutes? This criticism has been often voiced in Canada, even though Bill C-58 was introduced while the Anti-Inflation Program was in effect. In theory, the stations could have circumvented the AIB program by redefining their time availabilities, by upgrading a larger number of their availabilities into the highest price category, and by increasing the use of packages that would effectively increase the cost per rating point. It was generally believed that once the anti-inflation program was over, that advertising rates on Canadian television would increase dramatically.

Ironically, similar fears were voiced over U.S. advertising rates by the U.S. advertising agencies. The fight against higher prices and the threats of shifting increasing parts of the advertising budgets to other media appears to have been quite common throughout the U.S., particularly since 1975.

Indeed, at an Advertising Age seminar in 1976, Arch Knowlton, the Director of Media Services of General Foods U.S., called for the creation of a fourth network in the U.S. He wanted Hollywood producers and others to develop programs that could be fed to a group of independently owned TV stations that would co-ordinate their purchasing and broadcast activities. But the fourth network concept tended to fizzle out and as Marvin Zimm, in his article entitled "Inflation Isn't Over in T.V. Advertising Rates" (November 6, 1978 issue of Fortune) stated "Though nobody has exactly kissed and made up, the two year tiff between major advertisers and the television networks could be said to have ended some time last spring. Peace settled over Madison Avenue when the networks began selling time for the upcoming fall season and advertisers did not respond with blasts on price gouging or with angry talk about the need for a fourth network. This lack of rancor signalled that the advertising industry had, however grudgingly, accepted a series of rate increases that had been steep by any standard."

Obviously as a bargaining ploy, U.S. advertising agencies and national advertisers should not and did not complacently accept any increase in the price of advertising time charged by television stations and networks. However, the alternative threat of shifting part of the advertising budget to other media, with a few exceptions does not appear to have been realized. In an article in the August 1976 issue of Fortune, Carol Loomis pointed out that "some advertisers note that their own enthusiasm for moving dollars into alternative media is somewhat greater than that of their agencies."

If one examines media advertising cost increases in both Canada and the U.S. over the period 1974 to 1978, one will note that the increases in television rates on a cost per thousand basis have not been out of line with the comparable increases in other media over the entire 1974 to 1978 period, and while such costs were sharply higher in the 1977-78 period, the increase on radio was even greater. Thus, the possibilities of media shifting do not appear to provide much financial benefit to the major North American advertisers, since the costs of advertising in other media have tended to increase in line with the cost on television. Further, the increases in advertising costs in Canada have been in line with the increases for advertising costs in the U.S. over the 1974-78 period and indeed during the 1977-78 advertising year. The increases of television time have been much lower for spot time in the U.S. than in Canada but somewhat higher on the U.S. networks. Hence, while Bill C-58 might have resulted in additional upward price pressures in television advertising time, the increases do not appear to be out of line with the increases in network time in the U.S.

(d) Review of Other Major Criticisms

Among the other major criticisms levied against Bill C-58 was the view that this bill and the CRTC policy of permitting increasing U.S. television penetration into Canada via cable appear to be inconsistent with one another. This argument took two forms. In one case it was argued that Bill C-58 attempted to increase Canadian programming and perhaps Canadian viewing of such programming. But the policy of increasing U.S. television penetration into Canada is entirely at odds with this former goal, since it results in an increased viewing of American programming. Indeed, the fragmentation of the various Canadian markets results in a commensurate decline in the viewing of Canadian programming. A second aspect of the argument which has been advanced by the U.S. border broadcasters is that Bill C-58 was aimed at preventing U.S. border broadcasters from being compensated for their services, while at the same time the Canadian cable policy permitted the cabe companies to use the services provided by these border broadcasters for their own private profit.

It is clear that the CRTC policy of permitting cable systems to bring in U.S. signals into more and more parts of Canada does seem to go against the grain of the broadcasting policy of the government. Indeed, Mr. Loftus, Director-General of the CRTC, in communications with Dr. Neufeld of the Department of Finance, did point out that "the commission accepts the incursion of the U.S. signals on Canadian cable systems reluctantly." Mr. Loftus added, however, that the CRTC was attempting to stop the further increases of U.S. signal penetration to Canada and "has commenced to roll back the number of these signals carried on certain systems. The practical difficulties of implementing this policy are formidable. However, as more Canadian off-air services are licensed, the need to carry foreign signals abates because the bulk of foreign programming is available on Canadian stations." Obviously, while the CRTC would like to see fewer U.S. signals available on cable, they are not about to impose any limits in addition to the ones in existence on the amount of U.S. programming that can be shown by Canadian broadcasters.

While there might have been some mistakes made vis-à-vis cable policy in the past, this does not mean that this outcome cannot be rectified, and that measures should not be undertaken to increase the revenues of Canadian broadcasters to the point where they can afford to invest in more and better Canadian programming. In this way Bill C-58 can be viewed as a policy measure directed at altering the reality of past mistakes. It is simply a matter of reversing, in an incremental fashion, past errors of government policy in the area of communications. While an inconsistency might be apparent among the range of policies it is one that may disappear over time.

In a similar way, a clear justification exists for other supportive policies, such as simultaneous and non-simultaneous program substitution and periodic substitution of alternate signals on a cable system. Catherine Swinton in her article emphasized that "CATV threatens the existing structure of the television broadcasting system, which is based on licensing local stations to serve a designated community. CATV derogates from the value of the local licence-holder's market by importing signals from distant stations. The resulting fragmentation of the audience for the local signal reduces the attractiveness of the local station for advertisers, especially those with a geographically limited market." Accordingly, one could argue that these policies are simply attemptig to restore the value of local licences and provide added protection for the market served by the local licences. Indeed, the FCC policies towards cable in the U.S. are predicated on the same type of argument.

As for the second line of attack, once again it cannot be denied that the primary selling feature of cable in the Canadian market is the availability of U.S. signals. Indeed, it is likely that the extent of cable penetration and the profitability of cable systems depend upon access to the U.S. signals. But to be more accurate, it is not signals from specific stations per se that are valuable to the cable systems, but rather the American (or correctly Hollywood-New York) produced programs which are the critical variable.

As for the argument that the producers of these programs who still hold the copyrights in most cases are not being compensated for the additional audience that they reach, the incremental audiences in the smaller Canadian markets are rather minimal. In the larger and more important Canadian markets the bulk of the American programs have already been purchased by Canadian broadcasters, and are hence available on Canadian stations. If the producers of the programs desire to renegotiate the contracts to take into account the larger audiences available to certain Canadian stations because of cable, then that is up to them to negotiate with the Canadian broadcasters. But offsetting this advantage to the producers is the fact that these same programs that are sold to Canadian broadcasters (and in the contracts exclusivity in particular markets is granted) are also available off-air from the U.S. and on the cable system and hence the resulting economic value of the programs to Canadian broadcasters is reduced. In a sense Bill C-58 attempts to restore the exclusivity of these programs and increase the economic value of the programs purchased from U.S. sources.

Another response to the argument that the CRTC licenses the carriage of U.S. signals on cable systems but at the same time prevents the U.S. border broadcasters from obtaining the financial compensation for their services has been voiced by Dr. Camu, the chairman of the CRTC. In an address to the Canadian Cable Television Association convention in Montreal on May 31, 1978, Dr. Camu argued "The Commission believes that the legitimate recipients of any direct payment made by cable television should be the program creators or the owners of the programs. It should be accepted that the process of broadcasting itself should not be considered the creative process which requires compensation by those retransmitting programs. This payment should be extended to foreign creators and owners."

While there is some merit to Dr. Camu's position, we should point out that in the U.S. the Supreme Court has concluded in two cases (Fortnightly Corporation vs. United Artists Television Inc. in 1968 and Teleprompter Corporation vs. Columbia Broadcasting Systems Inc. 1974) that cable operators are not liable to pay copyright royalties. The majority of the justices in each case based their position on the argument that cable operators are not broadcasters but rather are simply an extension of the viewer's antenna or television set.

Nevertheless, despite these legal precedents that are at odds with the position of Dr. Camu, we believe the matter is one of negotiation between Canadian broadcasters and American and Canadian producers.

It has also been frequently argued that Bill C-58 is in effect a discriminatory tax against U.S. companies selling services into Canada and as a consequence, may be in violation of GATT. The latter part of the argument can be dismissed since GATT clearly did not concern itself with this subject. Indeed, it is surprising that the U.S. border broadcasters have pursued the GATT connection strenuously in their appeal before the Section 301 Committee of the Office of the Special Representative for Trade Negotiations in the U.S. In addition, they have maintained that Bill C-58 is a discriminatory tax and as such is covered by the U.S. Trade Act.

While it is possible to quibble from an economic and a legal point of view whether Bill C-58 is analogous to a discriminatory tax against U.S. broadcasters, we accept the argument that Bill C-58 is somewhat analogous to a tariff of a particular type of service import between Canada and the U.S. We base this argument on the observation that payments by Canadian companies for advertising time purchased on U.S. border broadcasters show up in Canada's national accounts as a service import. For this reason then, if Bill C-58 makes it more costly to purchase this particular type of service, then it is akin to an increased tariff rate on the import of a serivce from the U.S.

However, since the bulk of viewing in the principal markets in Canada is now done via cable rather than off-air, the availability of U.S. signals off-air becomes irrelevant in this entire issue. The

nature of the service being provided by U.S. border broadcasters is advertising time availabilities for Canadian companies. The supposed service to viewers is a non-argument for as we have pointed out above it is not the signal from any particular U.S. border station that is important, but rather the program itself and these programs could be imported from any U.S. station.

The availability of advertising time on U.S. border broadcasters has a value in the Canadian market because of an inadequacy of supply of time availabilities during the attractive periods, prime times and certain seasons of the year, on Canadian broadcast outlets. In effect, the restriction of licensing of new stations in Canada has provided the true value for the so-called services provided by U.S. border broadcasters.

In the Toronto market as an example, if there were more than the four major private broadcasters licensed to operate, then the audience share of the Buffalo stations, particularly if both simultaneous and non-simultaneous program substitution continued, would be rather minimal during the most attractive viewing periods. The so-called value of Buffalo services would be a fraction of what they were prior to the imposition of Bill C-58. With seven, eight or even nine Canadian stations licensed to operate in the Toronto market, the Buffalo stations' viewing share would likely be below the threshold level necessary to justify purchase of time by the major national Canadian advertisers. Hence, since it is to a large extent the result of the inadequacy or ineffectiveness of the Government of Canada (and the CRTC) policy vis-ã-vis licensing of new stations in the major Canadian markets that has provided a value for the time availabilities of U.S. border broadcasters, then as the major Canadian markets become more mature, U.S. border broadcasters cannot complain if the Canadian government adopts measures to increase the revenues available in such markets so as to be able to license more Canadian stations in these particular markets.

It is possible to adopt the infant industry argument in this particular case, and suggest that the tariff wall imposed by Bill C-58 is necessary to provide the advertising revenue flow required to ensure the financial feasibility of an increasing number of Canadian broadcasers in the major markets. Over time, as more of these stations are licensed and as other measures are introduced, then as more Canadian stations begin to operate in the major markets, the value of the so-called services provided by the U.S. border broadcasters will diminish. In light of the fact that many individuals whom we interviewed conceded that the financial viability of CITY and CKVU was to a large extent dependent upon Bill C-58, it adds support to the infant industry argument for Bill C-58.

If new stations are not licensed in the major Canadian markets, it is then reasonabe to argue that over the long term the main losers as a consequence of Bill C-58 will be Canadian advertisers who may find the efficiency of their advertising expenditures on the television medium reduced. U.S. border broadcasters, on the other hand, should be able to find new advertisers on the American side of the border to fill in the gaps opened up by Bill C-58 and other policies.

Hence by attracting companies that previously did not advertise on the television medium, U.S. border broadcasters should be able, over time, to have sufficiently increased the size of the American market so as to have incurred only short-term revenue losses.

Some may argue that in the case of station KVOS, it will be impossible to attract sufficient new American advertiers to compensate for the lost revenues from Vancouver-Victoria. But shouldn't a station's viability depend upon its own national market for which it was licensed to serve? Station KVOS incurred risks in its type of operation. Indeed, it should have considered the possibility that Government of Canada policy would change and that the change could be detrimental to the operations of KVOS. If they guessed wrong as to when there would be a change in Government of Canada policies in the communications area, then this simply reflects a risk they undertook. One cannot expect the Government of Canada to compensate them for mistakes in judgment.

We have dealt to some extent with an argument that as a result of Bill C-58 smaller Canadian companies would be squeezed out of the television advertising market in Canada. Another aspect to this argument is the ability of multi-national corporations to shift their advertising budgets from the Canadian subsidiaries to U.S. parent companies in order to circumvent Bill C-58. There is an intriguing element to this particular argument. If in fact it is correct, then it appears to be inconsistent with the claims made by the same advertising agencies and U.S. border broadcasters that the introduction of Bill C-58 would result in a rather dramatic increase in demand for the already tight time availabilities on Canadian stations. Either the multi-national corporations did shift their budgets, thus leaving a rather small impact on the incremental shifting of demand by Canadian companies from U.S. border stations to Canadian stations, or they did not shift their budgets and the rather substantial shifts in demand did occur. Both reactions could not have occurred simultaneously.

In our interviews we were provided with conflicting views on whether or not multi-national corporations did attempt to circumvent Bill C-58 in this manner. Several individuals stated that, in fact, they knew of many companies that had reallocated their advertising budgets to get around Bill C-58. On the other hand, several said they were not aware of any companies undertaking such actions. It is conceivable that in most cases where reallocation of advertising budgets did take place it more likely reflected the fact that the U.S. dollar value of Canadian-generated profits decreased as a consequence of the sharp devaluation of the dollar in 1977 and 1978. Since it is standard practice to tie advertising budgets to sales and profits, the reduction in the U.S. dollar value of the profits of the Canadian operations might have been accompanied by a decrease in their advertising outlays as well.

As for the possibility that multi-nationals shifted their allocations strictly to circumvent Bill C-58, the data that are available for 1977 in terms of the increases in spot advertising in the U.S. do not provide support for this position. As for purchasing

spot time in the prime access periods of 7 to 8 p.m., while there might be some scope for this type of move, in our interviews with U.S. border broadcasters we did not detect that they had experienced any strong demand pressures from the American side from advertisers for the time availabilities during the prime access periods. In light of the growth rate in spot advertising revenues for the Buffalo and the Burlington-Plattsburgh stations, we would tend to suggest that if there has been a shifting around of the advertising budgets by the multi-national corporations in order to get around the impact of Bill C-58, the amounts involved have been rather small.

Another argument that has been put forth has been that if one compares the cost per half-hour or hour for a Canadian broadcaster purchasing a major American series and the cost per half-hour or hour for the U.S. networks, the differences are rather dramatic and hence the U.S. networks have been subsidizing Canadian stations in their purchase of U.S. programs. This argument is rather ludicrous, since one cannot compare a purchase by a single Canadian station to that of a major U.S. network. The U.S. network is purchasing the program on behalf of a large number of affiliates across the U.S. with a total audience many times the size of the single Canadian broadcast entity. A more reasonable comparison would be between the purchase by a U.S. TV station and the price paid by a Canadian station operating in a market of comparable size and degree of competition.

Given that the incremental program sales made in Canada tend to be rather attractive for U.S. companies, one cannot then argue that Canadian consumers are indeed being subsidized. In fact, if the Canadian government implemented a policy aimed at reducing the imports of these so-called subsidized American products, there would be quite an uproar in the U.S. by the companies producing these products. Such actions by themselves would demonstrate that there is no subsidy involved in the program sales to Canadians.

Finally, there is the argument made by the Advertising Association of British Columbia that Bill C-58 together with commercial deletion exemplify a policy of attempting to legislate Canadian culture. The fears expressed in a brief by this Association were that it logically follows that further restrictive measures would be introduced, such as restriction on reading materials, etc. Accordingly the Advertising Association of British Columbia would prefer to allow the market to determine what is good and what is bad and let individuals make their own private choices.

To counter this particular position, we cite rather extensively from Catherine Swinton's article:

> "What begins to emerge from discussions about the free flow of broadcasting is the realization that most states -- open or closed, developing or developed -- fear that the flow of broadcasting will be in only one direction, that is, from the United States to other nations ... Since the United States is the most technologically advanced state in television broadcasting and already by far the largest exporter of television

programming, the United States appears to be the prime beneficiary of free flow of information ... The advertisers concerned with high ratings demand programs with wide appeal. Other states may wish to aim programming at more than the lowest common denominator out of a desire to reach various minority audiences, or they may prefer a portrayal of different values. Furthermore, they may wish to avoid the commercial model of broadcasting altogether, for fear that the market for local products will be endangered by multi-national corporations advertising internationally, or that development plans will be jeopardized, or because it is national policy not to have commercial broadcasting. What is emerging in discussions of broadcasting in the international sphere is the recognition of the need for some state role in regulating signals that cross its borders. Various international bodies discussing telecommunications, particularly the working group on direct broadcast satellites of the U.N. committee on the peaceful uses of outer space, UNESCO, and International Telecommunications Union, have expressed their support for a system of 'prior consent' from states. According to this principle, a state must consent in advance to programs broadcast into its territory from another state."

(e) Evaluation of Policy Alternatives

Any comprehensive policy review by either the Department of Communications or the CRTC in light of the findings and other comments made in our study should keep in mind the following critical factors.

(1) The three major networks play a dominant role in the broadcast industry in the U.S. Their size and market power enable them to set the tone for programming, not only in the U.S. but internationally. To a large extent, the U.S. affiliates are more dependent upon the networks than is the reverse. This compares to the case in Canada where we have one private national network and two regional networks, one English and one French. With the exception of the Global regional network, in the other two cases the member stations effectively control the operations of the networks and the networks exist only because of the member independent stations. In terms of relative size and importance, the networks in Canada do not come anywhere near to matching the dominance of the networks in the U.S.

(2) The total net advertising revenues received by both private and public broadcasters in Canada in 1977 amounted to just over \$375.5 million. In 1977 Procter and Gamble alone invested nearly a comparable amount for network and spot advertising in the U.S. marekt. Indeed, the revenues received by the networks and independent TV stations in the U.S. in 1977 were approximately 14 times the amount received (ignoring the difference in the value of the Canadian-U.S. dollar) by the entire broadcast industry in Canada. At the same time the amount of independent

programming produced in Canada and the U.S. was well below this 14 to 1 ratio. Even if one includes the government contributions to the CBC, and this would in turn increase the total operating revenues received in the broadcasting industry in Canada to approximately $750 million and thus reduce the revenue ratio to about 7 to 1, the programming ratio would still be less than 7 to 1. In the U.S., independent stations need to produce their own programming for no more than 20% of the total viewing hours, whereas in Canada each station must have Canadian content amounting to 60% of the total viewing time.

(3) The cost per half-hour or hour of U.S. programs for the Canadian broadcaster is only a fraction of the cost per half-hour or hour of a program produced by the broadcaster in Canada. The costs compared to a program produced in Canada and syndicated across Canada are more comparable. However, the audience share of American programs tends to be well in excess of the audience share of the most attractive Canadian programs and in terms of revenue per dollar cost outlay, the American programs are much more profitable for Canadian broadcasters than are Canadian programs. These differences in cost, audience and revenues between Canadian and U.S.-produced programs will likely persist well into the future.

(4) The repatriation of advertising revenues brought about by Bill C-58 was to a large extent the result of many multi-national corporations desiring to behave as good corporate citizens. In other words, the tax and revenue effects for the multi-national corporations were less important than the public relations or moral suasion aspects of the bill. This fact is important to consider when implementing future policies that will have some impact on the behaviour of multi-national corporations. This suggests that over time, at least with regard to Bill C-58, more and more multi-national corporations will be disappointed over the time availability problem in major markets. It is likely that they will redirect an increasing share of their advertising budgets back towards U.S. border broadcasters if these broadcasters restore their competitive position and/or continue to have attractive time availabilities. Indeed, in our opinion, at the present time most U.S. border broadcasters have fully restored their competitive position in light of the cost factor built in by Bill C-58 and the devaluation of the Canadian dollar. The soft U.S. market has resulted in prices of spot time falling relative to Canadian costs sufficiently over the past two years to offset the impacts of Bill C-58 and the Canadian dollar devaluation.

(5) Our estimates of the repatriation of net revenues from U.S. border broadcasters to Canadian broadcasters for 1977 and 1978 are likely to continue increasing for the next year or two. That is, the possible net repatriation in 1979 and 1980 will be in excess of the $12 to $15 million estimate for 1978. However, beyond 1980 as U.S. border broadcasters' competitive position continues to improve, and the good corporate citizen impact begins to wear off, in the absence of any new policy initiatives

it is likely that there will be a renewed flow of advertising revenues to U.S. border broadcasters. Indeed, this renewed flow may have commenced already. At least this is the impression provided to us in our interviews with several U.S. border broadcasters. What we are suggesting is that this flow will continue in relative terms beyond 1979 or 1980 and U.S. border broadcasters will once again become an important medium for Canadian companies desiring to use the television in their marketing efforts. Hence, we would argue that the maximum long-term annual repatriation will likely be no more than $17 to $20 million.

(6) As of 1977, the last year for which we had data available on the operations of the private broadcasters, it did not appear that the repatriated advertising revenues resulted in a major increase in budget allocations for Canadian programming although there was evidence of increases in Canadian and foreign programming. But we add the proviso that at least CITY and CKVU are still in operation because of the availability of revenues brought about by Bill C-58, and that in the absence of this bill, these stations would not likely be in operation and their Canadian programming would not be available.

With the above comments in mind, we will now proceed to briefly point out and evaluate the major policy alternatives that have been recommended to us both in our interviews and in the various correspondence made available to us. From the U.S. side there were three major suggestions aside from revoking Bill C-58. They were:

(1) the establishment of Canadian subsidiaries of U.S. border broadcasters along the lines of KVOS-B.C. Limited, with half of the Canadian-generated revenues being funneled through the subsidiaries and thus being subject to Canadian income taxes;

(2) a certain proportion of the Canadian-generated revenues would be allocated to a production fund that would be either managed and operated by the U.S. border broadcasters or managed and operated in conjunction with Canadian production interests or perhaps by the Canadian government;

(3) signals from U.S. stations should be eliminated entirely from cable systems in Canada. In this way the quantity of American programs shown on Canadian stations would be reduced dramatically.

On the Canadian side, the three major suggestions that have been put forth have been restoration of commercial deletion on a larger scale, the addition of non-simultaneous program substitution, and the replacement of the present Canadian content rules by one in which a certain proportion of the total revenues of a station would be devoted to Canadian programming.

We will not comment on the suggestion that U.S. programs be eliminated on cable and that the Canadian content be increased for Canadian broadcasters, since we believe that this particular proposal

lies well outside the terms of reference of our study. As for the other two suggestions made by U.S. border broadcasters, we will deal with the tax proposal first since the points that we will make with regard to this particular proposal can be applied as well to the production fund scheme. Using the data in Table 6, and ignoring the various qualifications discussed above, we note that the net gains to Canadians -- broadcasters, agencies and government -- in 1977 and 1978 as a result of Bill C-58 were $15 million and $21.8 million respectively. If one starts with the non-Bill C-58 values for 1977 and 1978 in our tables and adjusts the U.S. broadcaster figures as well as Canadian agency and U.S. and Canadian government figures for this particular tax proposal, then the position of Canadian advertisers would remain unchanged; however, the distribution of their taxes between Canadian and U.S. governments would alter.

The position of the Canadian agencies would remain unaltered and hence what we would get would be a gain to the Canadian government of an additional $3.8 million in revenues, a corresponding loss to the U.S. government in 1977, and an additional gain to the Canadian government in 1978 of about $4.4 million. These net gains resulting from the tax proposal put forth by U.S. border stations would be roughly $11 million and $17 million less than the total net gains incurred as a result of Bill C-58 and estimated by us.

Even if one adjusts downwards our estimates of the net gains stemming from Bill C-58, the U.S. broadcasters' tax proposals would still result in only a fraction of the net gains accruing to Canada. Moreover, all the gains would accrue to the Canadian government and this would necessitate some additional transfer of funds, either through alterations in tax rates or other potential write-offs to Canadian broadcasters in order to transfer the funds from the Canadian government to the broadcasters. With Bill C-58, although the Canadian government is a beneficiary, the broadcasters themselves also have gained directly.

As for the production proposal of the U.S. border broadcasters, once more using the data in Table 6, it is not likely that the broadcasters would have desired to funnel more than 40 to 50% of their pre-tax income into such a venture. This would suggest an infusion of funds in the order of about $12 million in 1977 and $14 million in 1978 at a maximum. More realistic figures would be in the range of perhaps $6 to $8 million in both years.

While these funds could be used directly for the production of Canadian programs, it is interesting to note that U.S. border broadcasters have repeatedly argued that the net revenues repatriated as the result of Bill C-58 were rather inconsequential in the overall scheme of things and that they would be inadequate to finance more than one or two full year one-half or one-hour series for Canadian television. Thus the border stations are critical of the relatively small amount of repatriated funds, but U.S. broadcasters are willing to transfer an equally small amount into direct production facilities and yet argue that these funds will contribue significantly to the further development of a Canadian television programming production industry. Here again it is a case of providing two inconsistent arguments.

Ignoring this particular inconsistency in the position of the U.S. border broadcasters, the net inflows into Canada resulting from this measure would once more be less than the net gains currently being received as the result of Bill C-58. While the amounts that would flow directly into production might be larger than the amounts currently flowing into production, this ignores the fact that in the absence of Bill C-58 two stations in Canada might no longer be in operation. If one includes their total expenditures on Canadian programming together with the incremental expenditures on Canadian programming resulting from the additional flow of revenues to Canadian stations as a result of Bill C-58, the net increase in expenditures on Canadian programming is likely to have been somewhat in excess of the amounts that U.S. border broadcasters are willing to put into a Canadian production fund. Consequently, while both schemes may superficially appear to be attractive, they fall short both in terms of the net dollar gains to Canadians and in terms of the net flow of funds directly into Canadian programming.

As for the proposals put forth by Canadian broadcasters, here we will not comment on the extension of commercial deletion since once more we believe this to be beyond the terms of reference of our study. As for the policy of incorporating non-simultaneous broadcast substitution in conjunction with the current policy of simultaneous program substitution, we believe that this policy should be pursued in order to protect exclusive rights to American programs purchased by Canadian stations and at the same time limit the fragmentation effects of cable and U.S. signals into Canada. Such a policy would be an adequate supplement or, perhaps more correctly, a complement to Bill C-58.

As for eliminating Canadian content rules entirely and replacing them with a revenue proportions rule, here we suggest that the regulatory problems would be immense and that there would be extreme financial difficulties encountered by the smaller or newer stations in Canada. In our earlier discussion of the distribution of expenditures by different expense categories across the private stations in the major markets, we noted that there were rather dramatic differences in the proportions allocated to programming, technical, administrative and sales categories and that within the programming category there were sharp differences in the proportions devoted to Canadian and non-Canadian sources of programming. Given these rather large differences across stations and the difficulties that might arise from the classification of technical expenditures, we could foresee a whole host of problems arising even if the transition period to this new type of policy were 10 to 15 years because of the difficulties of choosing a target level for this ratio and monitoring of the expenses that could be included for the production of Canadian programs.

While such a proposal has some merit in that some stations might devote their funds to perhaps higher quality programs rather than replicating at lowest possible cost American type shows, there is also the possibility that as a consequence of these types of activities there would be a greater demand for U.S. programming to fill the schedule, and as a result, a much larger number of second, third and

fourth-run U.S. syndicated series would be purchased. Thus, what we would likely get would be a substitution of low-cost U.S. reruns for low-cost imitations of U.S. programs that were produced in Canada. Some modification of the Canadian content rules to take into account a revenue proportion adjustment we believe is worthwhile pursuing, although we point out at this time that the selection of an appropriate ratio might be quite difficult and might generate some rather difficult monitoring or regulatory problems.

We conclude by making a suggestion that the policy adopted in the Ottawa-Watertown case of substituting an alternate U.S. signal on cable should be considered more seriously by the Department of Communications and the CRTC for larger scale application. A principal complaint of U.S. border broadcasters is that their signals are being used by cable systems for the private benefit of these systems and that Bill C-58 is preventing them from receiving remuneration for the so-called services they are providing to Canadian viewers via the cable system. As we pointed out above, the American programs themselves are critical in this particular case. Moreover, since the transmission via cable of these programs is extending the audience of U.S. stations beyond their licensed areas and beyond the areas in which they are available off-air, these are external benefits that can be, we believe, legally affected by policies within Canada.

Hence we would suggest, using Toronto as an example, that instead of putting the Buffalo television signals on cable systems in the Toronto or Southwestern Ontario market, the signals should be brought in from perhaps Chicago or New York (to avoid the time zone problems) and that in turn New York broadcasters could be exempt from Bill C-58. In this type of situation, the additional audiences made available to New York stations would be small in comparison to their major markets and at the same time their costs for advertising time would be non-competitive with the costs in the Toronto market. In addition, the New York market is well developed in terms of local advertisers and hence there would be few if any time availabilities there for Canadian advertisers.

Such a move does run the risk that there might be a reallocation of budgetary expenditures by multi-national corporations to generate the spillover benefit into the Southwestern Ontario market; however, we doubt, given the good corporate citizens aspect of the operations of multi-national corporations and the possibility of working on this in the future, that there would be any massive reallocation occurring.

The Buffalo stations as well would be exmpt from Bill C-58; however, they would find that they would no longer be an attractive medium for Canadian advertisers since, as we pointed out above, the bulk of viewing is via cable and not off-air in the Toronto market. In this situation, the Buffalo stations could not rightfully argue that their services are being pirated and they are not being offered any chance for compensation for these services. Thus we would suggest that if Bill C-58 is ever repealed, a policy of leapfrogging U.S. border stations and importing signals from more distant but larger American markets would be a viable substitute, together with the introduction of non-simultaneous program substitution.

TABLES T1 - T41

TABLE 1

CANADIAN PLACED ADVERTISING REVENUES ON
BORDER TV STATIONS, ALTERNATIVE ESTIMATES, 1975 - 1978

	1975	1976	1977	1978
Total Canadian Revenues (1)	$18,885,088	16,781,230	9,175,251	
Net Canadian Revenues	14,052,665	12,319,303	6,133,273	
KVOS(TV) Revenues (2)	7,421,920	6,542,454	4,113,463	3,153,000
KVOS(TV) Net Revenues	6,113,865	5,629,881	3,578,290	2,174,000
Buffalo	9,300,000 (3)		3,700,000 (4)	
Bellingham	7,000,000		3,500,000	
Other	4,700,000		1,000,000	
Total Canadian Revenues	21,000,000		8,200,000	

NOTE: Net revenues exclude agency commissions and sales representative commissions paid out in Canada.

SOURCES: (1) Price Waterhouse & Co.; Survey of Canadian Advertising Financial Data (10 Reporting Stations), February 3, 1978.

(2) Wometco Enterprises Inc.; written information prepared for authors.

(3) Howard Turetsky; Faulkner, Dawkins & Sullivan, April 17, 1975.

(4) David Mulcaster, CRTC; estimates provided to the D.O.C.

TABLE 2

ESTIMATED GROSS REVENUE LOSSES
OF U. S. BORDER BROADCASTERS,
1977 AND 1978
(Millions of U. S. Dollars)

Markets	Estimated-Actual 1975[1]	Gross Canadian Revenues Including Growth Assumptions 1977[2] A	1977[2] B	1977[2] C	1978[2] A	1978[2] B	1978[2] C	Estimated-Actual 1977	Estimated-Actual 1978	1977 Revenue Losses No Growth	1977 Assumptions A	1977 Assumptions B	1977 Assumptions C	1978 Revenue Losses No Growth	1978 Assumptions A	1978 Assumptions B	1978 Assumptions C
Buffalo	$ 9.5	10.5	12.6	12.4	11.0	14.4	13.7	5.1	2.8	3.9	5.4	7.5	7.3	6.2	8.2	11.6	10.9
Bellingham	6.7	7.4	9.8[3]	9.8	7.8	10.8[3]	10.8	3.4	2.4	3.3	4.0	6.4	6.4	4.3	5.4	8.4	8.4
Burlington/ Plattsburgh	2.6	3.3	3.9	3.8	3.7	4.8	4.1	1.2	1.0	1.4	2.1	2.7	2.6	1.6	2.7	3.8	3.1
Watertown	0.7	1.0[4]	1.0	1.0	1.1[4]	1.1	1.1	0.5	0.0[7]	0.2	0.5	0.5	0.5	0.7	1.1	1.1	1.1
Pembina	1.5	2.2[4]	2.2	2.2	2.4[4]	2.4	2.4	0.0[8]	0.0	1.5	2.2	2.2	2.2	1.5	2.4	2.4	2.4
Other	0.5	0.5[5]	0.5	0.5	0.5[5]	0.5	0.5	0.3[9]	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total	21.5	24.9	30.0	29.7	26.5	34.0	32.6	10.5	6.5	11.0	14.4	19.5	19.2	15.0	20.0	27.5	26.1

NOTES: [1]Estimates based on interviews and study by H. Turetsky.

[2]Estimates based on 1975 figures and three sets of assumptions regarding growth. See text for explanation of assumptions.

[3]Assumptions B and C were the same.

[4]Assumptions A, B and C were the same.

[5]No growth assumption was made.

[6]Estimates based on interviews and for 1977 cross-checked against Price-Waterhouse survey data.

[7]Based on assumption that Canadian advertisers in the Ottawa market would no longer use the Watertown stations since they were removed from an Ottawa cable system.

[8]KCND was sold to Canadian interests.

[9]Arbitrary assumption.

TABLE 3

ESTIMATES OF POSSIBLE REPATRIATION
OF NET ADVERTISING REVENUES,
BY MARKET AND VARIOUS AVERAGE CORPORATE TAX ASSUMPTIONS,
1977 AND 1978
(Millions of U. S. Dollars)

Market	Tax Rates							
	50%		45%		40%		30%	
	1977	1978	1977	1978	1977	1978	1977	1978
Buffalo/Toronto - NG	1.7	3.1	2.0	3.5	2.3	3.8	2.7	4.4
- G	4.0	6.5	4.4	6.9	4.8	7.2	5.4	7.8
Bellingham/Vancouver - NG	1.4	1.5	1.7	1.8	1.8	2.2	2.2	2.6
- G	3.9	4.8	4.2	5.1	4.3	5.4	4.6	5.9
Burlington/Plattsburgh/Montreal - NG	0.7	0.5	0.8	0.6	0.8	0.7	1.0	1.0
- G	1.7	1.7	1.8	1.8	1.8	1.9	1.9	2.2
Watertown/Ottawa - NG	0.0	0.6	0.0	0.6	0.1	0.6	0.1	0.6
- G	0.2	0.9	0.2	0.9	0.3	0.9	0.3	0.9
Pembina/Winnipeg - NG	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
- G	1.8	1.9	1.8	1.9	1.8	1.9	1.8	1.9
Total - NG	5.0	6.9	5.7	7.7	6.2	8.5	7.2	9.8
G	11.7	15.8	12.4	16.6	13.0	17.3	13.8	18.7

NOTES: NG represents the use of the no growth assumption.
G represents the use of the growth assumption C.
It should be recalled that net revenues are 80% of gross revenues.

TABLE 4

ESTIMATES OF POSSIBLE REPATRIATION
OF NET ADVERTISING REVENUES,
BY MARKET AND VARIOUS AVERAGE CORPORATE TAX ASSUMPTIONS,
1977 AND 1978
(Millions of Canadian Dollars)

Market	Tax Rates							
	50%		45%		40%		30%	
	1977	1978	1977	1978	1977	1978	1977	1978
Buffalo/Toronto - NG	1.8	3.5	2.1	3.9	2.4	4.3	2.9	4.9
- G	4.3	7.3	4.7	7.7	5.1	8.1	5.8	8.7
Bellingham/Vancouver - NG	1.5	1.7	1.8	2.0	1.9	2.5	2.3	2.9
- G	4.2	5.4	4.5	5.7	4.6	6.0	4.9	6.6
Burlington/Plattsburgh/Montreal - NG	0.7	0.6	0.9	0.7	0.9	0.8	1.1	1.1
- G	1.8	1.9	1.9	2.0	1.9	2.1	2.0	2.5
Watertown/Ottawa - NG	0.0	0.7	0.0	0.7	0.1	0.7	0.1	0.7
- G	0.2	1.0	0.2	1.0	0.3	1.0	0.3	1.0
Pembina/Winnipeg - NG	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
- G	1.9	2.1	1.9	2.1	1.9	2.1	1.9	2.1
Total - NG	5.3	7.7	6.1	8.6	6.6	9.5	7.7	11.0
- G	12.5	17.7	13.2	18.6	13.8	19.4	14.7	20.9

NOTES: NG represents the use of the no growth assumption.
G represents the use of growth assumption C.

TABLE 5

ESTIMATES OF WINNERS AND LOSERS
AS A RESULT OF BILL C-58,
1977 AND 1978
(Millions of U. S. Dollars)

		Without C-58		With C-58		Gains/Losses	
	1975	1977	1978	1977	1978	1977	1978
Canadian Advertisers							
Ad. expenditures	$21.5	29.7	32.6	25.9	27.3		
Tax Savings (Cdn.)	9.7	13.4	14.7	9.6	9.4		
Net Cost	11.8	16.3	17.9	16.3	17.9	0.0	0.0
U. S. Broadcasters							
Air time sales	21.5	29.7	32.6	10.5	6.5	-19.2	-26.1
Commissions	4.3	5.9	6.5	2.1	1.3		
Pre-tax income	17.2	23.8	26.1	8.4	5.2	-15.4	-20.9
Tax (Cdn.)	1.2	1.8	1.9	0.6	0.4		
Tax (U. S.)	6.5	8.9	9.8	3.2	1.9		
After-tax income	9.5	13.1	14.4	4.6	2.9	-8.5	-11.5
Canadian Agencies							
Commissions	4.3	5.9	6.5	5.2	5.5	-0.7	-1.0
Tax (Cdn.)	1.9	2.7	2.9	2.3	2.5		
After-tax income	2.4	3.2	3.6	2.9	3.0	-0.3	-0.6
Canadian Broadcasters							
Air time sales				15.4	20.8	15.4	20.8
Commissions				3.1	4.2		
Pre-tax income				12.3	16.6	12.3	16.6
Tax (Cdn.)				5.5	7.5		
After-tax income				6.8	9.1	6.8	9.1

NOTE: These figures utilize series C growth rate assumptions, a 45% average tax rate for both countries, and 20% commission payments based on gross revenue. For 1977, 55% of Canadian placed expenditures on border stations were covered by a grandfather clause and thus were exempt from Bill C-58. Since one-half of KVOS revenues are taxable to Canada, the U. S. broadcasters in this table show estimated tax payments to Canada.

TABLE 6

ESTIMATES OF WINNERS AND LOSERS
AS A RESULT OF BILL C-58,
1977 AND 1978
(Millions of Canadian Dollars)

		Without C-58		With C-58		Gains/Losses	
	1975	1977	1978	1977	1978	1977	1978
Canadian Advertisers							
Ad. expenditures	$22.0	31.6	36.5	27.2	30.5		
Tax Savings (Cdn.)	9.9	14.3	16.5	10.1	10.4		
Net Cost	12.1	17.3	20.0	17.1	20.1	0.0	0.0
U. S. Broadcasters							
Air time sales	22.0	31.6	36.5	11.2	7.3	-20.4	-29.2
Commissions	4.4	6.3	7.3	2.2	1.5		
Pre-tax income	17.6	25.3	29.2	9.0	5.8	-16.3	-23.4
Tax (Cdn.)	1.2	1.9	2.1	0.6	0.4		
Tax (U. S.)	6.7	9.5	11.0	3.4	2.1		
After-tax income	9.7	13.9	16.1	5.0	3.3	-8.9	-12.8
Canadian Agencies							
Commissions	4.4	6.3	7.3	5.4	6.1	-0.9	-1.2
Tax (Cdn.)	1.9	2.9	3.2	2.4	2.7		
After-tax income	2.5	3.4	4.1	3.0	3.4	-0.4	-0.7
Canadian Broadcasters							
Air time sales				16.2	23.2	16.2	23.2
Commissions				3.2	4.6		
Pre-tax income				13.0	18.6	13.0	18.6
Tax (Cdn.)				5.8	8.4		
After-tax income				7.2	10.2	7.2	10.2

TABLE 7

ANNUAL DOLLAR INCREASES IN SELECTED PROGRAM CATEGORIES
AND INCREASES AS A PROPORTION OF TOTAL AIR TIME SALES,
TOTAL CKVU, CITV, CKND, CKGN, AND CITY,
1975 - 1977

	Actual Values ($000's)			Dollar Increases ($000's)		
	1977	1976	1975	76 - 77	75 - 76	75 - 77
Total Air Time Sales	39,689.5	25,437.7	14,456.3	14,251.8	10,981.4	25.233.2
Total Program Expenses	22,318.0	15,042.6	12,285.3	7,275.4	2,757.3	10,032.7
Domestic Programs	9,134.0	7,118.9	5,019.0	2,015.1	2,099.9	4,115.0
Feature Films	2,411.8	2,586.5	1,213.2	-174.7	1,373.3	1,198.6
Syndicated Programs	9,698.7	5,114.5	5,779.5	4,584.2	-665.0	3,919.2
Operating Income	4,399.0	1,901.1	-4,416.0	2,497.9	6,317.1	8,815.0

	Dollar Increases/ Air Time Sales Increases (%)		
	76 - 77	75 - 76	75 - 77
Total Program Expenses	51.0	25.1	39.8
Domestic Programs	14.1	19.1	16.3
Feature Films	-1.2	12.5	4.8
Syndicated Programs	32.2	-6.1	15.5
Operating Income	17.5	57.5	34.9

SOURCE: See Appendix C.

TABLE 8

SIMULCAST,

WINTER 1977 AND FALL 1977,

COMBINED MAJOR MARKETS

	HOURS OF SIMULTANEOUS PROGRAM SUBSTITUTION (REGULAR PROGRAMS) PER WEEK		NUMBER OF PROGRAMS PER WEEK	
	WINTER/77	FALL/77	WINTER/77	FALL/77
MONTREAL				
Daytime	5.0	5.0	1	1
Primetime	8.5	10.0	10	11
	13.5	15.0	11	12
TORONTO				
Daytime	38.75	26.25	9	6
Primetime	21.50	25.50	27	30
	60.25	51.75	36	36
VANCOUVER				
Daytime	5.0	17.0	2	5
Primetime	16.0	15.5	19	20
	21.0	32.5	21	25
COMBINED				
Daytime	48.75	48.25	12	12
Primetime	46.00	51.00	56	61
	94.75	99.25	68	73

SOURCE: Study prepared for Department of Communications by Media Stats Inc.

TABLE 9

SIMULCAST,
WINTER 1977 AND FALL 1977,
TORONTO MARKET

	HOURS OF SIMULTANEOUS PROGRAM SUBSTITUTION (REGULAR PROGRAMS) PER WEEK		NUMBER OF PROGRAMS PER WEEK	
	WINTER/77	FALL/77	WINTER/77	FALL/77
CBLT				
Daytime	2.5	-	1	-
Primetime	1.5	1.0	3	2
	4.0	1.0	4	2
CFTO-TV				
Daytime	10.0	10.0	2	2
Primetime	5.0	6.0	5	6
	15.0	16.0	7	8
CHCH-TV				
Daytime	13.75	8.75	3	2
Primetime	11.0	7.50	12	8
	24.75	16.25	15	10
CITY-TV				
Daytime	10.0	7.5	2	2
Primetime	-	3.0	-	1
	10.0	10.5	2	3
CKGN-TV (GLOBAL)				
Daytime	2.5	-	1	-
Primetime	4.0	8.0	7	13
	6.5	8.0	8	13
COMBINED				
Daytime	38.75	26.25	9	6
Primetime	21.50	25.50	27	30
	60.25	51.75	36	36

SOURCE: See Table 8.

TABLE 10

SIMULCAST,
WINTER 1977 AND FALL 1977,
VANCOUVER MARKET

		HOURS OF SIMULTANEOUS PROGRAM SUBSTITUTION (REGULAR PROGRAMS) PER WEEK		NUMBER OF PROGRAMS PER WEEK	
		WINTER/77	FALL/77	WINTER/77	FALL/77
CBUT					
	Daytime	2.5	-	1	-
	Primetime	1.5	1.0	3	2
		4.0	1.0	4	2
CHAN-TV					
	Daytime	-	5.0	-	1
	Primetime	7.0	7.0	7	7
		7.0	12.0	7	8
CKVU-TV					
	Daytime	2.5	12.0	1	4
	Primetime	7.5	7.5	9	11
		10.0	19.5	10	15
CHEK-TV					
	Not included as simulcasting has an irregular pattern				
COMBINED					
	Daytime	5.0	17.0	2	5
	Primetime	16.0	15.5	19	20
		21.0	32.5	21	25

SOURCE: See Table 8

TABLE 11

RATINGS IMPACT OF SIMULCAST

MAJOR MARKETS

FALL 1977

	Weekly Hours Simulcast (Average Oct. 31 - Nov. 20, 1977)		Simulcast Rating as a Proportion of Published Rating	
	Day Time (hrs.)	Prime Time	Day Time (%)	Prime Time
CHAN	5	7.3	35	58
CKVU	12.5	10.3	78	58
CITV	2.5	8.3	28	25
CFRN	5	2.3	8	13
CFCN	5	5.2	3	16
CFAC	5	5.2	54	18
CKY	-	4.3		15
CKND	-	8.1	-	20
CKGN	-	5.8		43
CITY	5	3	100	45
CFTO	10	8	30	30
CHCH	8.7	7.7	26	26
CJOH	5	6.7	7	4
CFTM				
CFCF	5	8	20	11
CBC STATIONS				
CBMT - Montreal		0.8		19
CBOT - Ottawa		0.8		1
CBLT - Toronto		0.8		37
CBWT - Winnipeg		0.8		12
CBUT - Vancouver		0.8		49

SOURCE: Study prepared by the Radio-TV Development Branch, CRTC, February, 1978.

TABLE 12

PROPORTION OF PRIME-TIME SHOWS (SUNDAY-SATURDAY, 7:00-11:00 P.M.) ON THREE BUFFALO TV STATIONS, SIMULCAST OR BROADCAST ON FIVE TORONTO-CENTERED CANADIAN TV STATIONS, BY TYPE OF PROGRAM, OCTOBER 28-NOVEMBER 17, 1978

	Network				Non-Network		
	Series	Movies	Specials	Total	Syndicated	Other	Total
OCTOBER 28-NOVEMBER 3							
3 Buffalo Stations (Hrs)	38.5	16	5	59.5	17	7.5	24.5
5 Toronto Stations							
Simulcast (Hrs)	21.5	2	2.5	25.5	0.5	-	0.5
Proportion (%)	(55.8)	(12.5)	(50.0)	(42.9)	(2.9)	-	(2.0)
Simulcast and Broadcast (Hrs.)	33.5	4	2.5	40	5	-	5
Proportion (%)	(87.0)	(25.0)	(50.0)	(67.2)	(29.4)	-	(20.4)
NOVEMBER 4-NOVEMBER 10							
3 Buffalo Stations	35	13.5	14	62.5	16.5	5	21.5
5 Toronto Stations							
Simulcast	13	3	3	19	0.5	-	0.5
Proportion	(37.1)	(22.2)	(21.4)	(30.4)	(3.0)	-	(2.3)
Simulcast & Broadcast (Hrs)	27	9	3	39	5	-	5
Proportion	(77.1)	(66.7)	(21.4)	(62.4)	(30.3)	-	(23.3)
NOVEMBER 11-NOVEMBER 17							
3 Buffalo Stations	36.5	20	9.5	66.0	16.5	1.5	18.0
5 Toronto Stations							
Simulcast	15.5	4	5	24.5	0.5	-	0.5
Proportion	(42.5)	(20.0)	(52.6)	(37.1)	(3.0)	-	(2.8)
Simulcast & Broadcast (Hrs)	25	16	7	48	7.5	-	7.5
Proportion	(68.5)	(75.0)	(73.7)	(72.7)	(45.4)	-	(41.7)

SOURCE: Weekly TV listings in Toronto.

TABLE 13

SIMULCASTING BY TORONTO STATIONS AGAINST BUFFALO

OCTOBER 28 - NOVEMBER 17, 1978
(Hours)

	Oct.28-Nov. 3	Nov.4-Nov.10	Nov.11-Nov.17	Average
CFGN - Day	0	0	0	0
- Prime	5	3.5	4	4.2
CITY - Day	10.5	10.5	10.5	10.5
- Prime	4	4	5	4.3
CFTO - Day	5	5	5	5
- Prime	9.5	9.5	10.5	9.8
CHCH - Day	10	10	10	10
- Prime	7.5	3.5	6.5	5.8
CBLT - Day	2.5	2.5	2.5	2.5
- Prime	1.5	0.5	1	1
TOTAL - Day	28	28	28	28
- Prime	27.5	21	27	25.2

SOURCE: See Table 12

TABLE 14

ADVERTISING RATES OF NETWORK AFFILIATES,

BY SELECTED MARKET, 1974 AND 1976

1973-1974

Markets	Rank	ABC	CBS	NBC
New York	1	8,650	9,500	10,000
Boston	5	3,350	3,250	3,450
Pittsburgh	10	2,900	2,800	2,350
Miami	15	1,289	1,600	1,500
Tampa-St. Petes	20	750	1,450	1,400
Portland, Ore.	26	1,100	1,225	1,225
Providence	27	1,350	1,400	1,550
Buffalo	28	1,900	1,800	1,800
Denver	29	1,100	1,050	1,100
Nashville	30	950	1,275	1,175

1975-1976

Markets	Rank	ABC	CBS	NBC
New York	1	8,800	9,500	10,000
Boston	5	3,450	3,250	3,450
Pittsburgh	10	n.a.	2,800	2,350
Miami	15	1,425	1,775	1,550
Indianapolis	20	1,400	1,500	1,625
Portland, Ore.	24	1,150	1,225	1,225
Sacramento	25	1,250	1,050	1,400
Cincinnati	26	1,900	1,750	1,850
Buffalo	27	1,900	1,800	1,800
Denver	28	1,200	1,050	1,100
Providence	29	1,350	1,400	1,550

Source: Broadcasting Yearbook, 1974 and 1976.

TABLE 15

MEDIA ADVERTISING COST INCREASES IN CANADA,
1974 - 1978

Medium	1977 - 1978 Increase (%)		1977 - 1978 Annual Rate of Increase	
	Rate	CPM	Rate	CPM
TV	11.9	13.3	11.8	11.0
Radio	14.5	23.4	13.5	10.1
Daily Newspapers	7.5	4.9	10.7	7.2
Roto Supplements	6.1	4.9	8.6	7.8
Magazines	6.2	4.0	7.6	7.8
Outdoor	5.4	5.4	13.5	12.8
Transit	9.0	2.1	13.7	6.8

SOURCE: John Tomlinson and Bill Bennet, Marketing, January 16, 1978.

NOTE: The 1978 figures were forecasted by the writers. The rate column refers to published rate cards. The CPM changes refer to costs per thousand reached.

TABLE 16

ANNUAL RATE OF GROWTH OF REVENUES
IN U. S., NETWORKS AND OTHER STATIONS;
NETWORK, LOCAL AND NATIONAL SPOT, 1973 - 1977
(%)

Station Category	76 - 77	75 - 76	74 - 75	73 - 74
Networks	22.8	26.7	8.0	9.4
Network O & O's	3.2	24.5	5.7	6.3
All Other	8.0	29.1	9.2	8.8
Revenue Category				
Network	21.2	24.0	7.5	9.0
National Spot	2.3	32.7	8.4	8.6
Local	13.9	28.2	10.1	8.6

SOURCES: *Broadcasting*: August 14, 1978; August 29, 1977; August 2, 1976; September 2, 1974.

TABLE 17

ANNUAL RATES OF GROWTH OF TOTAL TELEVISION ADVERTISING EXPENDITURES OF LEADING CANADIAN TELEVISION ADVERTISERS IN 1977; IN CANADA AND THE U. S., BY COUNTRY OF CONTROL
1974-1977

(%)

	Total Expenditures in Canada				Total Expenditures in the U.S.			
Foreign-control	76-77	75-76	74-75	74-77	76-77	75-76	74-75	74-77
Proctor & Gamble	3.1	34.1	11.9	15.6	-2.8	29.8	11.4	12.0
General Foods	26.2	38.2	10.3	24.4	8.9	43.1	8.8	19.2
Bristol-Myers	25.9	13.1	18.3	19.0	10.6	9.2	11.6	10.4
Warner-Lambert	4.3	21.3	3.8	9.5	3.0	28.1	1.6	10.3
Kraft Foods	23.8	32.8	14.0	23.3	9.5	18.0	4.9	10.7
General Motors	-16.1	32.1	11.8	7.4	18.6	43.3	-11.6	14.5
Kellogg	5.4	20.3	9.6	11.6	24.2	10.2	20.5	18.1
Lever Bros.	80.4	5.0	18.8	31.0	7.0	21.2	-0.8	8.8
Whitehall Labs	7.8	17.9	9.0	11.5	9.8	13.6	3.2	8.8
Colgate-Palmolive	-7.8	4.7	-18.7	-7.7	8.4	17.5	-11.7	4.0
Total	11.9	24.9	8.0	14.7	6.8	25.4	4.7	11.9
S.C. Johnson	30.9	38.6	-36.2	5.0	-12.4	11.2	-10.2	-4.4
Coca-Cola	-0.7	95.3	19.0	32.2	-3.1	16.7	2.7	5.1
Ford	77.4	39.1	4.5	37.1	20.2	18.5	9.4	16.0
Johnson & Johnson	14.1	11.1	60.0	26.6	41.6	19.9	7.0	22.0
McDonalds	47.3	39.2	16.3	33.6	21.4	38.7	23.1	27.0
Standard Brands	-8.3	52.9	91.4	39.0	0.1	-9.1	68.0	15.2
Beecham	40.8	0.7	26.3	28.7	n.a.	n.a.	n.a.	n.a.
Gillette	-1.7	1.8	3.1	1.0	-11.9	8.1	10.6	1.8
Sterling Drugs	-4.4	14.5	-15.8	-2.7	0.6	0.5	-16.1	-5.4
Imperial Oil	8.6	10.9	11.5	10.3	11.3	24.1	34.0	22.8
Total	17.0	28.5	9.2	18.0	8.3	15.3	6.3	9.9
Nestle	37.6	11.0	-3.8	13.7	21.3	31.5	21.3	24.6
Simpsons-Sears	39.0	36.8	-4.3	22.1	27.4	8.9	11.1	15.5
Campbell Soup	-18.9	23.9	9.6	3.3	-24.0	47.6	45.2	17.7
Union Carbide	21.1	11.3	23.1	18.4	-18.8	40.1	33.3	14.9
Nabisco	19.0	11.4	17.1	15.8	7.4	14.7	43.0	20.8
Scott Paper	-11.8	53.6	0.9	11.0	6.4	27.2	-1.2	10.2
Playtex	58.4	28.9	-11.0	22.0	n.a.	n.a.	n.a.	n.a.
F.W. Woolworth	-12.4	43.5	41.2	21.1			-5.0	
Pepsi-Cola	7.8	22.2	38.6	22.2	21.0	51.7	16.5	28.8
American Express	57.2	70.2	94.0	73.2	40.8	15.8	16.4	23.8
Total	13.6	28.7	13.8	18.5			20.9	

TABLE 17 (cont'd)

ANNUAL RATES OF GROWTH OF TOTAL TELEVISION ADVERTISING EXPENDITURES OF LEADING CANADIAN TELEVISION ADVERTISERS IN 1977; IN CANADA AND THE U. S., BY COUNTRY OF CONTROL

1974-1977

(%)

	Total Expenditures in Canada				Total Expenditures in the U.S.			
Foreign Control	76-77	75-76	74-75	74-77	76-77	75-76	74-75	74-77
Philips	5.0	21.0	65.7	28.2	13.5	46.9	25.0	27.7
Lipton	5.3	74.7	41.1	37.4				
Noxzema	9.9	46.5	-22.6	7.6	26.4	30.4	-6.2	15.6
Gulf	-15.0	-4.9	32.1	2.2				
Wrigley	13.6	5.7	34.6	17.3	-43.3	39.0	61.6	8.4
TMX	10.1	23.1	40.7	24.0				
Chrysler	108.3	329.0	-60.5	52.3	-14.6	30.7	36.3	15.0
Heinz	27.2	16.4	33.6	25.5	41.0	44.6	8.8	30.4
Richardson & Merrell	49.0	9.9	3.1	19.1	28.6	58.9	32.4	39.4
Quaker Oats	78.6	-24.3	86.9	36.2	43.8	11.6	-28.7	4.6
Total	19.2	21.0	24.9	21.7				
Total	14.1	25.7	10.8	16.7				
Canadian-control								
Gov't. of Canada	29.6	133.0	14.2	51.0				
Molson	12.7	19.2	3.8	11.7				
John Labatt	55.3	13.4	12.0	25.4				
K-Tel	5.4	3.3	20.0	9.3				
Carling O'Keefe	-3.2	43.4	32.6	22.6				
Eaton's	23.1	82.6	15.1	37.3				
Canada Packers	-0.8	27.3	17.3	14.0				
Hudson's Bay	-11.8	34.7	166.5	46.8				
CN	82.7	185.4	63.9	104.5				
Trans-Canada Phone	7.0	205.9	-5.8	45.6				
Total	16.9	47.2	22.4	28.2				
Quebec Gov't	-10.6	47.6	11.1	13.6				
Irwin Group	24.6	34.6	-17.9	11.2				
Bell Canada	50.2	-4.2	-5.6	10.7				
Ahed Music	212.0	206.2	-	-				
Rowntree-Macintosh	-13.4	16.0						
Dominion Stores	48.2	-9.7	86.1	35.6				
Home Shoppe	-	-	-	-				
Tee Vee Records	143.1	-0.7	118.6	74.1				
CIBC								
Canadian Pacific	72.5	-39.8	13.9	5.8				
Grand Total	13.3	27.4	13.6	17.9				

SOURCES: Elliott Research, Canadian National Advertising Expenditures, 1974 - 1977 issues; Advertising Age, May 1975, May 1976, August 1977 and August 1978 issues.

TABLE 18

U.S. STATION PERFORMANCE IN CANADA

PERCENT SHARE OF HOURS TUNED - WOMEN 18

BY MARKET, 1970 - 1977

		NOV/70	NOV/74	JAN/76	NOV/76	NOV/77
HALIFAX	SHARE	-	18.1	22.4	28.2	22.8
	INDEX	-	-	-	-	-
MONTREAL (E)	SHARE	20.8	27.1	34.5	37.4	33.4
	INDEX	100	130	166	180	161
KINGSTON	SHARE	57.1	48.6	46.7	49.4	54.3
	INDEX	100	97	90	76	76
KITCHENER	SHARE	38.7	37.4	34.7	29.3	29.6
	INDEX	100	97	90	76	76
LONDON	SHARE	37.4	38.1	42.0	42.1	38.1
	INDEX	100	102	112	113	102
OTTAWA (E)	SHARE	17.2	25.3	21.7	28.7	27.1
	INDEX	100	116	117	111	111
PETERBOROUGH	SHARE	35.7	41.5	41.9	39.8	39.5
	INDEX	100	116	117	111	111
SAULT STE. MARIE	SHARE	37.9	54.1	61.6	68.3	68.2
	INDEX	100	143	163	180	180
TORONTO	SHARE	44.2	41.4	40.5	35.7	33.5
	INDEX	100	94	92	81	76
THUNDER BAY	SHARE	42.9	30.8	37.3	41.0	41.5
	INDEX	100	72	87	96	97
WINNIPEG	SHARE	23.9	38.7	28.1	32.5	31.0
	INDEX	100	162	118	136	130
(KCND NOT INCL.)	SHARE	2.7	14.4	28.1	32.5	31.0
	INDEX	100	533	1041	1204	-
CALGARY	SHARE	-	15.8	27.6	25.0	29.4
	INDEX	-	-	-	-	-
EDMONTON	SHARE	-	13.7	20.6	24.2	25.5
	INDEX	-	-	-	-	-
VANCOUVER	SHARE	53.0	50.4	56.6	48.0	44.7
(KVOS INCL.)	INDEX	100	95	107	91	84
(KVOS NOT INCL.)	SHARE	29.6	34.6	43.4	37.7	32.3
	INDEX	100	117	147	127	109
WINDSOR	SHARE	80.0	82.1	87.1	88.5	89.4
	INDEX	100	102	108	110	112

SOURCE: J. Walter Thompson, Media Update, February 28, 1978, p.7,8.

TABLE 19

CABLE PENETRATION IN CANADA

PERCENTAGE OF HOUSEHOLDS

BY MARKET, 1970 - 1976

		NOV/70	NOV/74	JAN/76	NOV/76
HALIFAX	%	-	48	56	60
	INDEX	-	-	-	-
MONTREAL (E&F)	%	22	34	37	42
	INDEX	100	155	168	191
KINGSTON	%	-	14	36	41
	INDEX	-	-	-	-
KITCHENER	%	53	76	77	79
	INDEX	100	114	114	116
LONDON	%	73	83	83	85
	INDEX	100	114	114	116
OTTAWA (E&F)	%	50	70	68	72
	INDEX	100	140	136	144
PETERBOROUGH	%	62	75	74	76
	INDEX	100	121	119	123
SAULT STE. MARIE	%	25	72	74	75
	INDEX	100	288	296	300
TORONTO	%	28	66	68	70
	INDEX	100	236	243	250
THUNDER BAY	%	62	72	67	74
	INDEX	100	116	108	119
WINNIPEG	%	22	53	58	62
	INDEX	100	241	264	282
CALGARY	%	3	54	64	69
	INDEX	100	1800	2133	2300
EDMONTON	%	-	53	56	60
	INDEX	-	-	-	-
VANCOUVER	%	60	80	79	83
	INDEX	100	133	132	138
WINDSOR	%	-	-	-	-
	INDEX	-	-	-	-

Source: J. Walter Thompson, Media Update, February 28, 1978, p. 12, 13.

TABLE 20

SELECTED FINANCIAL DATA,

CANADIAN TELEVISION BROADCASTING INDUSTRY,

1974 - 1977 (AUGUST YEAR ENDS)

($000's)

	All Stations				Private Stations				CBC			
Revenues	1977	1976	1975	1974	1977	1976	1975	1974	1977	1976	1975	1974
Local Time Sales	96,913	84,750	69,462	56,489	88,859	76,125	63,285	51,366	8,054	8,625	6,177	5,123
National Time Sales	197,337	163,865	133,691	122,586	172,848	142,681	114,560	95,621	24,489	21,187	19,131	16,965
Network Time Sales	81,314	73,980	62,478	56,115	48,513	45,413	36,951	32,465	32,721	28,567	25,527	23,660
Total - Sale Air Time	375,564	322,598	265,631	225,190	310,300	264,219	214,796	179,452	65,264	58,379	50,835	45,748
Syndication					1,105	506	1,858	151				
Production					17,032	15,171	12,775	11,563				
Total Revenues					330,973	282,224	233,571	193,972				
Expenses												
Program					138,048	110,513	96,313	89,291	262,824	230,364	193,369	182,205
Technical					27,432	23,431	21,501	17,905	56,410	67,831	54,653	44,821
Sales and Promotion					31,390	26,100	22,574	19,770	17,171	15,199	12,867	10,839
Administration					57,602	48,935	43,055	34,231	106,862	80,166	53,154	41,228
Total					254,472	208,979	183,443	161,197	443,267	393,560	314,053	279,073
Operating Income					76,506	73,245	50,128	32,775				
Operating Income/ Revenues (%)					23.1	26.0	21.5	16.9				

SOURCE: Statistics Canada, Radio and Television Broadcasting, (Cat. 56-204), 1974, 1975, 1976 and 1977 issues.

NOTE: 1. Includes radio and television operations.

TABLE 21

SELECTED FINANCIAL DATA BY REGION,

PRIVATE CANADIAN TELEVISION BROADCASTING INDUSTRY,

1974 - 1977 (AUGUST YEAR END)

($000's)

Revenues

	Local Sales	National Sales	Network Sales	Total Air Sales	Production
1977 - Atlantic	7,029	7,064	4,246	18,339	542
Quebec	29,949	38,625	8,389	76,963	3,684
Ontario	13,198	86,851	17,844	117,894	9,892
Manitoba/Saskatchewan	11,622	10,360	5,915	27,897	341
Alberta	17,105	13,655	6,062	36,822	2,283
B. C./Yukon	9,956	16,293	6,136	32,385	290
	(88,859)	(172,848)	(48,592)		
1976 - Atlantic	6,469	5,796	4,071	16,336	408
Quebec	26,430	34,177	7,966	68,573	4,649
Ontario	12,735	72,834	17,226	102,795	7,389
Manitoba/Saskatchewan	9,955	8,385	5,487	23,826	539
Alberta	14,070	10,555	5,741	30,365	2,145
B. C./Yukon	6,466	10,935	4,923	22,325	40
	(76,125)	(142,682)	(45,454)		
1975 - Atlantic	5,538	4,799	2,874	13,212	344
Quebec	21,167	28,125	6,578	55,870	3,312
Ontario	13,454	58,480	14,186	86,120	7,305
Manitoba/Saskatchewan	7,166	5,687	4,236	17,089	522
Alberta	11,141	8,295	5,383	24,819	1,250
B. C./Yukon	4,819	9,172	3,693	17,684	43
1974 - Atlantic	4,687	4,079	2,712	11,478	351
Quebec	16,952	24,735	5,740	47,428	3,279
Ontario	12,446	47,472	13,142	73,060	6,879
Manitoba/Saskatchewan	5,572	5,151	3,281	14,005	390
Alberta	7,828	6,782	4,644	19,254	619
B. C./Yukon	3,880	7,403	2,945	14,228	46

Expenses

Total Revenues	Program	Technical	Sales Promotion	Administration	Total
18,934	6,838	2,259	2,113	3,206	14,417
81,243	27,937	8,812	6,683	16,214	59,645
129,074	60,497	7,548	12,086	20,125	100,256
28,951	11,552	2,443	3,111	4,631	21,737
39,717	16,476	2,786	4,124	7,276	30,663
33,058	14,748	3,585	3,272	6,149	27,754
16,809	6,179	1,812	1,791	3,102	12,884
73,681	23,281	7,564	5,636	13,172	49,653
111,322	49,341	7,074	10,815	17,516	84,746
24,572	9,591	2,223	2,646	4,312	18,771
33,107	13,765	2,579	3,177	6,463	25,985
22,733	8,355	2,179	2,036	4,369	16,940
13,604	4,592	1,683	1,533	2,622	10,432
59,667	19,956	6,896	4,842	11,652	43,346
96,589	46,267	6,921	9,854	16,248	79,289
17,808	7,166	1,654	1,869	2,855	13,543
27,504	11,987	2,791	2,845	5,529	23,152
18,417	6,345	1,556	1,632	4,148	13,681
12,007	4,401	1,476	1,259	2,235	9,371
51,106	17,843	5,532	4,142	9,438	36,954
81,144	48,256	6,729	9,318	14,918	79,222
14,611	5,718	1,267	1,536	2,464	10,984
20,163	7,327	1,653	2,051	2,838	13,869
14,942	5,747	1,248	1,465	2,339	10,798

SOURCE: See Table 20.

TABLE 22

DISTRIBUTION OF TOTAL AIR SALES
BY LOCAL, NATIONAL AND NETWORK, BY REGION,
PRIVATE CANADIAN TELEVISION BROADCASTING INDUSTRY
1976 - 1977
(%)

	Local		National		Network	
	1976	1977	1976	1977	1976	1977
Atlantic	39.6	38.3	35.5	38.5	24.9	23.2
Quebec	38.5	38.9	49.8	50.2	11.6	10.9
Ontario	12.4	11.2	70.8	73.7	16.7	15.1
Manitoba/Saskatchewan	42.8	41.7	36.0	37.1	23.6	21.2
Alberta	46.3	46.4	34.8	37.1	18.9	16.5
B. C./Yukon	29.0	30.7	49.0	50.3	22.0	19.0

SOURCE: See Table 20.

TABLE 23

DISTRIBUTION OF TOTAL LOCAL SALES
TOTAL NATIONAL SALES, TOTAL NETWORK SALES,
BY REGION,
PRIVATE CANADIAN TELEVISION BROADCASTING INDUSTRY,
1976 - 1977
(%)

	Local		National		Network	
	1976	1977	1976	1977	1976	1977
Atlantic	8.5	7.9	4.1	4.1	9.0	8.7
Quebec	34.7	33.7	24.0	22.4	17.5	17.3
Ontario	16.7	14.8	51.0	50.2	37.9	36.7
Manitoba/Saskatchewan	13.1	13.1	5.9	6.0	12.1	12.2
Alberta	18.5	19.2	7.4	7.9	12.6	12.5
B. C./Yukon	8.5	11.2	7.7	9.4	10.8	12.6

SOURCE: See Table 20.

TABLE 24

DISTRIBUTION OF TOTAL EXPENSES, BY REGION,
PRIVATE CANADIAN TELEVISION BROADCASTING INDUSTRY,
1976 - 1977

(%)

	Program		Technical		Sales Promotion		Administration	
	1976	1977	1976	1977	1976	1977	1976	1977
Atlantic	48.0	47.4	14.1	15.7	13.9	14.7	24.1	22.2
Quebec	46.9	46.8	15.2	14.8	11.4	11.2	26.5	27.2
Ontario	58.2	60.3	8.4	7.5	12.8	12.1	20.7	20.1
Manitoba/ Saskatchewan	51.1	53.1	11.8	11.2	14.1	14.3	23.0	21.3
Alberta	53.0	53.7	9.9	9.1	12.2	13.4	24.9	23.7
B. C./Yukon	49.3	53.1	12.9	12.9	12.0	11.8	25.8	22.2

SOURCE: See Table 20.

TABLE 25

SELECTED FINANCIAL DATA,

RELATIVE IMPORTANCE OF MAJOR TELEVISION MARKETS IN CANADA,

BY REGION,

1974 - 1977

(%)

	Vancouver	Calgary/Edmonton	Winnipeg	Toronto	Montreal	Total Major Markets
	B. C./Yukon	Alberta	Manitoba/Saskatchewan	Ontario	Quebec	Total Canada
Revenue						
Local Sales - 1977	57.0	66.0	29.8	19.2	61.4	46.5
1976	47.1	66.6	29.8	24.5	61.2	45.6
1975	43.5	62.9	23.9	25.0	58.8	42.1
1974	43.2	53.8	25.6	21.4	60.1	39.3
National Sales - 1977	77.1	65.2	53.0	72.5	63.5	66.2
1976	69.9	64.8	50.6	70.7	62.2	64.1
1975	65.0	64.1	37.3	66.1	61.8	60.6
1974	70.0	50.2	27.7	61.4	62.5	57.7
Network Payments - 1977	21.3	13.4	10.3	13.2	28.6	15.4
1976	21.8	14.0	11.1	14.1	28.4	15.8
1975	21.2	17.3	11.3	12.2	28.7	15.7
1974	25.5	18.2	14.5	14.9	31.8	18.0
Total Air Sales - 1977	60.3	57.0	34.3	57.6	58.9	52.6
1976	52.7	56.0	32.8	55.5	57.9	50.5
1975	50.0	53.4	25.2	50.8	56.8	47.4
1974	53.5	46.0	27.8	46.2	57.9	45.2

TABLE 25 (cont'd)

	Vancouver	Calgary/Edmonton	Winnipeg	Toronto	Montreal	Total Major Markets
	B. C./Yukon	Alberta	Manitoba/Saskatchewan	Ontario	Quebec	Total Canada
Expenses						
Program - 1977	61.0	61.7	35.3	62.1	62.8	56.8
1976	46.8	60.0	31.5	58.8	60.9	52.8
1975	42.4	60.1	24.8	55.4	59.7	51.1
1974	36.4	43.6	27.7	62.8	63.1	54.2
Total - 1977	61.6	62.8	34.8	57.5	59.1	53.8
1976	48.2	60.3	33.6	54.9	57.4	50.3
1975	45.6	61.9	25.0	51.1	54.8	48.1
1974	46.8	45.7	27.2	56.3	58.0	49.9
Operating Income - 1977	50.9	43.9	28.2	70.2	58.9	54.5
1976	62.1	47.7	26.4	67.1	59.7	55.6
1975	55.0	27.1	21.7	56.1	61.9	48.9
1974	61.9	40.9	25.0	-	60.3	31.6

SOURCE: Table 21 and internal DOC reports.

TABLE 26

DISTRIBUTION OF AIR TIME SALES,
MAJOR AND MINOR CANADIAN MARKETS,
PRIVATE BROADCASTERS,
1974 - 1977
(%)

	Local				National				Network			
	1977	1976	1975	1974	1977	1976	1975	1974	1977	1976	1975	1974
Vancouver	29.0	25.9	23.7	22.0	64.3	65.0	67.4	68.1	6.7	9.1	8.8	9.8
Other B. C.	33.4	32.4	30.8	33.3	29.1	31.1	36.3	33.5	37.6	36.5	32.9	33.2
Calgary/Edmonton	53.8	55.1	52.9	49.8	42.4	40.2	40.1	40.3	3.8	4.7	7.0	10.0
Other Alberta	36.7	35.2	35.8	33.5	30.1	27.8	25.8	31.3	33.2	37.0	38.5	35.2
Winnipeg	36.2	37.9	39.7	36.7	57.4	54.3	49.2	51.1	6.4	7.8	11.1	12.2
Other Manitoba/Saskatchewan	44.5	43.7	42.7	41.0	26.6	25.9	27.9	31.3	28.9	30.5	29.4	27.8
Toronto	3.7	5.5	7.7	7.9	92.8	90.3	88.4	86.3	3.5	4.2	4.0	5.8
Other Onterio	21.3	21.0	23.8	29.9	47.7	46.7	46.8	46.7	31.0	32.3	29.4	28.4
Montreal	40.6	40.8	39.2	37.1	54.2	53.6	54.8	56.2	5.3	5.7	5.4	6.6
Other Quebec	36.6	35.5	36.1	33.9	44.6	44.7	44.4	46.5	19.0	19.8	19.4	19.6

TABLE 27

DISTRIBUTION OF TOTAL SALES TO ADVERTISERS
BY U. S. NETWORKS, NETWORK O & O's AND ALL OTHER STATIONS
1973 - 1977
(%)

	1977	1976	1975	1974	1973
3 Networks	43.2	39.9	40.2	40.4	40.2
15 Network O & O's	8.9	9.8	10.0	10.3	10.6
All Other	47.9	50.3	49.7	49.3	49.3

SOURCES: Broadcasting, August 14, 1978; August 29, 1977; August 2, 1976; September 8, 1975; September 2, 1974.

TABLE 28

DISTRIBUTION OF TOTAL SALES TO ADVERTISERS
BY U. S. TELEVISION STATIONS,
BY NETWORK, SPOT AND LOCAL,
1973 - 1977
(%)

	1977	1976	1975	1974	1973
Network	47.4	44.4	45.7	46.1	46.0
Non-Network					
Spot	28.8	31.9	30.7	30.7	30.7
Local	23.8	23.8	23.6	23.2	23.3

SOURCE: See Table 27.

TABLE 29

DISTRIBUTION OF EXPENSES
BY SELECTED EXPENSE CATEGORIES,
U. S. NETWORK AND TELEVISION STATIONS,
1973 - 1977
(%)

	1977	1976	1975	1974	1973
Technical - 3 Networks	n/a	n/a	n/a	n/a	n/a
- Network O & O's	11.4	12.2	12.2	16.7	17.0
- Network affiliates	12.0	12.3	12.6	12.8	13.7
- Independents	10.9	11.8	12.2	12.5	11.9
Program - 3 Networks	n/a	n/a	n/a	n/a	n/a
- Network O & O's	56.1	55.4	57.9	52.0	51.4
- Network affiliates	42.3	42.1	43.0	39.6	41.6
- Independents	48.1	48.6	48.9	47.7	49.2
Technical and Program					
- 3 Networks	86.4	87.6	87.0	86.9	88.2
- Network O & O's	67.5	67.6	70.2	68.7	68.4
- Network affiliates	54.2	54.4	55.6	52.4	55.3
- Independents	60.3	60.4	61.0	60.3	61.1
Selling - 3 Networks	4.5	3.9	3.8	3.7	3.4
- Network O & O's	13.7	13.6	12.1	12.4	12.3
- Network affiliates	13.8	13.4	12.9	12.8	12.6
- Independents	14.6	13.3	12.6	12.4	12.6
Administration - 3 Networks	9.2	8.5	9.2	9.4	8.5
- Network O & O's	18.8	18.8	17.8	19.0	19.3
- Network affiliates	32.0	32.2	31.5	34.9	32.2
- Independents	25.1	26.3	26.4	27.4	26.3
Feature Films - 3 Networks	9.2	9.3	8.9		11.5
Purchased Programs - 3 Networks	43.6	40.3	40.4		38.2

SOURCE: See Table 27.

TABLE 30

ANNUAL INCREASES IN SELECTED EXPENSE CATEGORIES,

U. S. NETWORK AND OTHER TELEVISION STATIONS,

1973 - 1977 (%)

	76 - 77	75 - 76	74 - 75	73 - 74
Total Expenses - 3 Networks	19.4	24.3	10.9	8.3
- Network O & O's	8.0	13.1	7.6	7.6
- Network affiliates	9.4[1] (9.6)	13.9[1] (13.5)	34.1[1] (31.2)	7.9[1] (8.3)
- Independents	6.9[2] (14.4)	21.2[2] (9.2)	2.6[2] (18.9)	9.7[2] (-5.3)
Program - Network O & O's	9.5	8.1	19.9	8.8
- Network affiliates	9.9 (10.1)	11.6 (11.2)	45.7 (42.5)	8.7 (9.1)
- Independents	5.7 (13.2)	20.4 (8.5)	5.2 (21.9)	6.4 (-8.2)
Technical and Program				
- 3 Networks	17.8	25.3	10.9	6.7
- Network O & O's	7.9	8.9	9.9	8.1
- Network affiliates	9.2 (9.4)	11.4 (11.0)	42.5 (39.4)	8.4 (8.8)
- Independents	6.9 (14.4)	19.8 (8.0)	3.9 (20.4)	8.2 (-6.6)
Feature Films - 3 Networks	19.1	29.0		
Purchased Programs - 3 Networks	29.3	24.1		

SOURCE: See Table 27 .

NOTES: [1] 546 Network affiliates in 1977; 547 in 1976; 545 in 1975; 533 in 1974; and 535 in 1973.
[2] 85 Independents in 1977; 91 in 1976; 82 in 1975, 95 in 1974; and 82 in 1973.

TABLE 31

DISTRIBUTION OF REVENUES, SELECTED U.S. TELEVISION MARKETS,
1972-1977
(%)

	SPOT						LOCAL						NETWORK					
MARKET	1977	1976	1975	1974	1973	1972	1977	1976	1975	1974	1973	1972	1977	1976	1975	1974	1973	1972
TOP 7 MARKETS																		
New York	56.7	60.2	64.0	69.1	69.5	75.8	37.5	34.2	29.3	23.9	23.4	16.7	5.8	5.6	6.8	7.0	7.0	7.4
Los Angeles	53.1	58.3	59.0	59.2	60.4	61.7	43.4	38.2	36.5	36.2	35.0	33.7	3.5	3.6	4.6	4.6	4.6	4.6
Chicago	65.6	65.6	65.3	66.0	64.8	69.2	30.0	30.1	29.4	28.5	29.4	24.9	4.4	4.3	5.3	5.5	5.8	5.9
Philadelphia	61.2	65.2	61.6	58.6	58.8	58.9	32.8	28.9	30.8	33.0	33.2	32.9	6.0	5.9	7.6	8.4	7.9	8.2
San Francisco	54.9	58.2	58.6	54.8	54.0	58.4	41.5	38.2	36.8	40.3	40.8	36.1	3.6	3.6	4.7	4.8	5.2	5.4
Boston	64.2	64.8	65.4	64.4	63.7	64.9	30.6	30.1	28.1	29.3	30.0	28.5	5.2	5.1	6.5	6.3	6.3	6.6
Detroit	55.4	59.8	60.1	61.3	59.8	58.4	38.4	33.8	31.8	30.5	32.3	33.5	6.2	6.4	8.1	8.2	7.9	8.0
BUFFALO EQUIVALENT MARKETS																		
Buffalo	55.6	64.2	64.6	70.2	70.6	69.1	36.8	29.0	27.6	22.0	21.0	22.3	7.7	6.8	7.7	7.8	8.4	8.6
Cincinnati	43.8	48.0	43.8	47.0	47.2	48.9	46.9	43.9	45.6	41.8	41.3	38.2	7.8	8.1	10.6	11.2	11.4	12.9
Portland, Oregon	58.8	59.3	55.3	55.0	55.0	55.0	35.6	35.2	36.7	35.7	35.6	35.3	5.6	5.5	8.0	9.2	9.4	9.7
Providence	49.7	52.1	48.5	48.8	49.3	53.0	37.9	36.7	37.9	37.5	37.1	33.3	12.4	11.2	13.6	13.7	13.6	13.7
San Diego	54.0	57.4	54.3	50.5	46.8	50.9	38.4	35.2	36.3	39.7	43.9	41.3	7.6	7.4	9.3	9.8	9.4	7.8
Rochester	47.7	49.1	45.1	46.4	46.0	45.8	43.9	41.8	43.0	41.4	40.6	39.7	8.4	9.1	11.9	12.2	13.5	14.5
BURLINGTON-PLATTSBURGH EQUIVALENT MARKETS																		
Burlington-Plattsburgh	50.0	53.2	50.0	47.4	47.1	50.4	32.4	29.8	29.5	30.3	28.9	26.5	17.5	16.9	20.5	22.3	24.0	23.1
Fargo Valley	30.8	30.8	29.5	28.9	30.0	29.1	55.9	55.0	54.2	52.6	50.8	50.4	13.3	14.2	16.3	18.5	19.2	20.5
Baton Rouge	31.0	30.8	25.5	25.2	23.3	22.7	57.6	58.9	62.6	60.6	62.0	63.4	11.5	10.3	11.9	14.2	14.7	13.9
Huntsville-Decatur	43.8	45.0	40.8	35.3	37.3	35.8	44.7	44.1	45.5	48.0	44.7	47.5	11.5	10.9	13.7	16.7	18.0	16.7
Johnston City	41.7	41.4	37.9	38.5	39.6	41.4	43.3	43.7	45.3	44.8	44.2	41.6	15.0	15.0	16.8	16.7	16.2	17.0
ERIE PENNSYLVANIA EQUIVALENT MARKETS																		
Erie	32.3	35.7	27.9	30.4	28.3	29.6	49.9	46.5	52.1	49.4	51.9	48.8	17.8	17.8	20.0	20.2	19.8	21.5
Joplin	40.0	41.1	31.4	31.0	31.1	31.2	38.8	36.2	44.1	44.0	43.7	41.2	21.1	22.6	24.5	24.9	25.2	27.6
Rochester, Minn.	38.6	38.0	34.0	33.3	32.0	29.7	45.4	44.4	45.8	45.7	46.4	46.9	15.9	17.5	20.2	21.0	21.6	23.4

SOURCES: Broadcasting, August 14, 1978, August 29, 1977, August 2, 1976, September 8, 1975, September 2, 1974 issues.

TABLE 32

PROFIT RATES (PROFITS/REVENUES)

SELECTED U.S. TELEVISION MARKETS

1972-1977

(%)

Market	1977	1976	1975	1974	1973	1972
Top 7 Markets						
New York	23.8	27.3	23.1	19.9	23.4	24.1
Los Angeles	28.8	29.8	17.2	19.6	21.2	22.4
Chicago	29.4	34.0	28.0	27.5	26.1	25.2
Philadelphia	37.2	37.1	27.4	24.8	24.4	25.4
San Francisco	32.2	35.7	26.2	27.2	27.2	29.4
Boston	31.6	34.7	24.9	26.2	26.8	30.4
Detroit	33.3	37.6	30.6	35.6	37.1	35.5
Buffalo Equivalent Markets						
Buffalo	30.3	34.7	31.5	33.1	31.7	33.6
Cincinnati	32.8	29.6	25.9	24.6	20.5	23.2
Portland, Oregon	29.6	33.8	20.5	16.8	14.2	17.4
Providence	28.7	32.3	25.4	22.2	25.6	26.2
San Diego	32.8	30.6	22.0	21.3	21.7	16.0
Rochester	41.0	39.6	27.0	28.1	22.3	14.9
Burlington-Plattsburgh Equivalent Markets						
Burlington-Plattsburgh	21.7	23.8	18.9	20.9	16.1	23.1
Fargo Valley	19.7	24.3	11.5	5.7	5.0	7.1
Baton Rouge	15.9	17.8	7.2	-0.3	-3.0	3.6
Huntsville-Decatur	15.5	17.6	1.9	11.2	8.7	10.9
Johnston City	26.0	25.2	20.9	16.6	20.0	14.7
Erie Pennsylvanie Equivalent Markets						
Erie	5.1	4.5	7.3	5.9	10.1	6.8
Joplin	18.7	18.6	14.0	18.0	19.7	24.5
Rochester, Minn.	24.8	22.6	19.0	23.1	20.6	12.7

SOURCE: See Table 31 .

TABLE 33

ANNUAL RATES OF GROWTH OF BROADCAST EXPENSES

SELECTED U.S. TELEVISION MARKETS

1972-1977

(%)

Market	76-77	75-76	74-75	73-74	72-73	72-77
Top 7 Markets						
New York	8.6	17.8	2.1	6.6	9.7	8.8
Los Angeles	6.6	17.7	10.9	8.7	6.9	10.1
Chicago	7.1	14.3	5.3	6.4	4.2	7.4
Philadelphia	3.7	12.5	9.3	8.1	6.0	6.6
San Francisco	10.5	18.4	7.4	8.1	11.8	11.2
Boston	8.8	11.7	3.0	7.8	9.2	8.1
Detroit	11.4	19.0	9.5	8.1	7.2	11.0
Buffalo Equivalent Markets						
Buffalo	0.5	6.0	6.0	2.6	11.2	5.2
Cincinnati	6.8	29.0	8.6	1.3	7.0	10.2
Portland, Oregon	11.1	21.8	8.6	7.8	7.5	11.2
Providence	7.7	11.2	2.7	9.1	4.2	6.9
San Diego	10.8	14.6	6.9	15.7	16.6	12.9
Rochester	6.5	9.6	6.5	7.4	0.3	6.0
Burlington-Plattsburgh Equivalent Markets						
Burlington-Plattsburgh	7.9	16.1	16.3	9.6	12.8	12.5
Fargo Valley	11.1	9.1	5.1	6.3	10.6	8.4
Baton Rouge	15.1	14.9	12.0	8.3	8.3	11.7
Huntsville-Decatur	8.7	16.8	21.7	14.9	9.5	14.2
Johnston City	10.3	16.2	-0.3	18.6	2.1	9.1
Erie Pennsylvania Equivalent Markets						
Erie	3.7	16.4	5.7	8.5	8.4	8.4
Joplin	9.6	3.0	8.5	8.4	14.9	8.8
Rochester, Minn.	12.6	9.0	13.1	4.6	-1.0	7.5

SOURCE: See Table 31.

TABLE 34

DISTRIBUTION OF NATIONAL ADVERTISING EXPENDITURES

BY RADIO AND TELEVISION

50 LEADING NATIONAL ADVERTISERS IN 1977 IN CANADA

1974 - 1977*

(%)

Rank/1977	Company	Radio 1977	Radio 1976	Radio 1975	Radio 1974[1]	TV 1977	TV 1976	TV 1975	TV 1974
1.	Govt. of Canada	15.8	14.8	12.5	12.1	36.1	41.6	26.1	26.8
2.	General Foods	1.0	1.1	1.1	2.6	91.3	94.7	94.3	86.0
3.	Procter & Gamble	1.2	0.4	1.3	1.6	96.2	96.1	96.1	95.4
4.	General Motors	9.6	3.5	10.9	7.5	63.1	69.1	66.7	60.9
5.	Kraft Foods	2.2	4.6	1.4	4.0	71.9	66.4	64.4	64.4
6.	Bristol-Myers	2.0	3.6	2.2	2.8	84.4	73.2	76.5	78.5
7.	Ford	3.0	7.8	17.2	1.1	51.2	31.0	46.7	37.0
8.	Warner-Lambert	1.8	3.3	5.1	0.6	96.2	96.2	91.3	92.4
9.	Molson Cos.	20.7	15.3	17.0	24.2	71.0	74.9	71.8	67.1
10.	Imasco	0.1	4.0	8.7	11.4	9.8	9.7	6.4	7.7
11.	Kellogg-Salada	3.3	2.7	1.2	0.9[2]	88.5	86.4	86.3	93.4[2]
12.	Lever Bros.	0.3	1.2	1.7	4.8	99.7	95.6	93.9	87.2
13.	Ontario Govt.	29.6	41.0	32.6	23.0	17.6	20.1	11.1	26.8
14.	Rothmans	0.6	0.7	-	8.3	-	-	-	-
15.	John Labatt	12.0	19.9	20.3	24.2[3]	83.1	71.8	69.8	67.6[3]
16.	Carling O'Keefe	18.2	17.9	23.0	32.7	75.6	72.6	66.8	56.4
17.	Coca-Cola	22.9	35.0	30.3	27.0	73.2	58.4	49.6	61.3
18.	Chrysler	13.8	27.3	27.8	26.1	31.3	16.6	6.0	17.0
19.	Eaton's	4.6	6.8	10.6	17.2	65.0	60.1	62.9	49.0
20.	Whitehall Labs.	2.0	2.4	2.3	2.8	89.8	91.0	92.3	91.9
21.	Air Canada	16.6	10.4	9.3	19.6	18.0	6.5	18.2	20.2
22.	Canadian Pacific	7.2	25.1	11.5	8.6	27.9	18.5	31.1	32.2
23.	Colgate-Palmolive	4.6	2.8	3.2	1.7	91.0	92.7	81.0	88.5
24.	CN	5.3	6.8	7.4	8.1	54.6	40.8	24.9	15.4
25.	Standard Brands	8.0	1.1	12.1	23.9	75.7	83.3	62.2	59.2
26.	McDonalds	16.5	23.4	20.4	20.7	80.4	72.6	76.4	76.6
27.	Seagrams	0.4	0.4	0.7	2.5	0.9	2.5	0.6	-
28.	Quebec Govt.	17.3	15.0	15.2	14.9	45.0	40.2	36.9	37.6
29.	K-Tel	0.1	0.4	0.4	1.6	99.9	99.6	99.6	98.4
30.	S.C. Johnson	-	-	0.4	0.1	98.7	98.3	98.7	99.9
31.	Dominion Stores	34.0	37.3	38.1	47.5	39.5	40.7	50.2	33.1
32.	Johnson & Johnson	5.1	9.6	11.6	13.4	94.1	86.5	82.1	77.2
33.	Beecham	-	-	3.3[4]	3.2	79.0	73.2[4]	71.0[4]	65.0
34.	Macdonald Tobacco	-	-	-	4.6	-	-	-	0.7
35.	Imperial Oil	5.9	7.9	9.1	5.7	71.4	66.2	66.5	64.5

TABLE 34 (cont'd)

Rank/1977 Company	Radio 1977	Radio 1976	Radio 1975	Radio 1974[1]	TV 1977	TV 1976	TV 1975	TV 1974
36. Canada Packers	4.1	3.0	5.0	6.7	78.9	76.6	68.1	65.6
37. Nabisco	3.6	4.9	13.1	8.0	64.6	63.0	66.0	73.7
38. Simpsons-Sears	9.9	16.1	23.8	16.5	66.7	62.6	64.0	73.6
39. Nestle	2.1	10.5	11.1	6.9	75.2	73.0	69.6	71.4
40. Pepsi-Cola	8.6	21.5	14.5	20.5	64.2	64.1	68.8	71.9
41. Gillette	-	4.5	2.9	-	94.5	92.8	92.8	97.0
42. Gilbeys	-	-	1.4	1.4	7.4	6.0	6.1	5.1
43. Sterling Drugs	2.9	5.6	9.6	13.2	84.5	82.0	76.5	70.4
44. Gulf	6.6	8.0	7.2	5.2	60.8	69.1	73.8	62.0
45. Hudsons Bay	3.6	1.5	0.9	4.4	91.9	94.1	90.9	85.8
46. Campbell Soup	10.6	4.0	1.1	4.2	74.8	81.9	88.7	81.3
47. Bell Canada	6.9	10.7	12.4	16.8	64.0	46.4	55.6	48.6
48. American Express	1.1	-	8.6	21.6	71.6	79.8	58.2	40.0
49. Hiram Walker	-	1.3	1.0	-	-	-	-	-
50. Wardair	2.0	2.8	0.8	4.0	-	-	-	-
Total - Top 50								
- All	8.6	9.7	10.9	11.3	55.8	54.6	51.3	51.0

SOURCE: Elliott Research, Canadian National Advertising Expenditures, 1974 through 1977 issues.

NOTES: [1]1974 data include Canadian placed business on KCND Pembina and KVOS Bellingham.

[2]1975 data include Canadian placed business on KCND Pembina.

[2]Kellogg-Salada merged in 1975 and 1974. Data were aggregated for the two separate companies.

[3]John Labatt purchased Chateau Cartier and Chateau Gai in 1974 and 1974, and data were therefore aggregated.

[4]Beecham purchased LARAIT Sales in 1974 and CALGON in 1976, and thus 1974 through 1976 data were also aggregated.

[*]TV selective announcement expenditures were compiled from information supplied by TV stations or their representatives and verified by monitoring and/or station logs in 18 centres across Canada. TV programming and network announcement expenditures were compiled by monitoring in key centres across Canada and/or program formats. Each announcement was costed using the one-time rate published in Canada Advertising Rates and Data. The expenditures reported do not represent total budgets of given brands, since some media were excluded here.

TABLE 35

ANNUAL RATES OF GROWTH OF TOTAL ADVERTISING EXPENDITURES
AND TOTAL TELEVISION EXPENDITURES OF
50 LEADING NATIONAL ADVERTISERS IN CANADA IN 1977,
1974 - 1977

(%)

	Total Advertising				Total Television			
Company	76-77	75-76	74-75	74-77	76-77	75-76	74-75	74-77
1. Govt. of Canada	49.3	46.3	17.1	36.8	29.6	133.0	14.2	51.0
2. General Foods	30.9	37.6	0.6	21.9	26.2	38.2	10.3	24.4
3. Procter & Gamble	3.0	34.0	11.1	15.3	3.1	34.1	11.9	15.6
4. General Motors	-8.1	27.4	2.2	6.1	-16.1	32.1	11.8	7.4
5. Kraft Foods	14.3	28.8	14.0	18.8	23.8	32.8	14.0	23.3
6. Bristol-Myers	9.2	18.1	21.4	16.1	25.9	13.1	18.3	19.0
7. Ford	7.3	109.6	-17.1	23.1	77.4	39.1	4.5	37.1
8. Warner-Lambert	4.4	15.0	5.1	8.0	4.3	21.3	3.8	9.5
9. Molson	18.8	14.2	-3.0	9.6	12.7	19.2	3.8	11.7
10. Imasco	9.9	37.3	13.3	19.6	10.5	109.0	-5.7	29.6
11. Kellogg-Salada	2.8	20.2	18.6	13.6	5.4	20.3	9.6	11.6
12. Lever Bros.	73.0	3.0	10.4	25.3	80.4	5.0	18.8	31.0
13. Ontario Govt.	28.4	-23.4	134.4	32.1	11.9	39.2	-3.3	14.6
14. Rothmans	25.4	54.1	9.1	28.2	-	-	-	-
15. John Labatt	34.2	10.3	8.4	17.1	55.3	13.4	12.0	25.4
16. Carling O'Keefe	-7.1	32.0	11.9	11.1	-3.2	43.4	32.6	22.6
17. Coca-Cola	-20.6	65.8	47.0	24.6	-0.7	95.3	19.0	32.2
18. Chrysler	10.4	54.4	12.3	24.2	108.3	329.0	-60.5	52.3
19. Eaton's	13.7	90.9	-10.2	24.9	23.1	82.6	15.1	37.3
20. Whitehall Labs	9.2	19.6	8.5	12.3	7.8	17.9	9.0	11.5
21. Air Canada	3.4	16.8	17.2	12.3	187.8	-58.4	5.4	8.0
22. CP	14.3	1.2	17.9	10.9	72.5	-39.8	13.9	5.8
23. Colgate-Palmolive	-6.0	-8.4	-11.2	-8.6	-7.8	4.7	-18.7	-7.7
24. CN	36.5	74.3	1.3	34.1	82.7	185.4	63.9	104.5
25. Standard Brands	0.9	14.1	82.1	28.0	-8.3	52.9	91.4	39.0
26. McDonalds	33.1	46.4	16.6	31.4	47.3	39.2	16.3	33.6
27. Seagrams	31.5	-2.2	12.7	13.2	-			
28. Quebec Govt.	-20.1	35.8	13.1	7.1	-10.6	47.6	11.1	13.6
29. K-Tel	5.0	3.3	18.6	8.8	5.4	3.3	20.0	9.3
30. S.C. Johnson	30.4	39.1	-35.4	5.4	30.9	38.6	-36.2	5.0
31. Dominion Stores	52.5	11.4	22.6	27.7	48.2	-9.7	86.1	35.6
32. Johnson & Johnson	4.9	5.4	50.6	18.5	14.1	11.1	60.0	26.6
33. Beecham	30.4	-2.4	15.6	13.8	40.8	0.7	26.3	28.7
34. Macdonald Tobacco	67.2	-36.4	65.2	20.7	-	-	-	-
35. Imperial Oil	0.7	11.3	8.2	6.6	8.6	10.9	11.5	10.3

TABLE 35 (cont'd)

Company		Total Advertising				Total Television			
		76-77	75-76	74-75	74-77	76-77	75-76	74-75	74-77
36.	Canada Packers	-3.7	13.2	12.9	7.2	-0.8	27.3	17.3	14.0
37.	Nabisco	16.2	16.5	30.7	21.0	19.0	11.4	17.1	15.8
38.	Simpsons-Sears	30.4	39.8	10.2	26.2	39.0	36.8	-4.3	22.1
39.	Nestle	33.5	5.8	-1.3	11.7	37.6	11.0	-3.8	13.7
40.	Pepsi-Cola	7.5	31.3	44.7	27.0	7.8	22.2	38.6	22.2
41.	Gillette	-3.4	1.8	7.8	1.9	-1.7	1.8	3.1	1.0
42.	Gilbeys	6.2	8.6	9.2	8.0	-	-	-	-
43.	Sterling Drugs	-7.2	6.8	-22.5	-8.4	-4.4	14.5	-15.8	-2.7
44.	Gulf	-3.4	1.5	10.9	2.9	-15.0	-4.9	32.1	2.2
45.	Hudsons Bay	-9.7	30.1	151.6	43.5	-11.8	34.7	166.5	46.8
46.	Campbell Soup	-11.1	34.1	0.5	6.2	-18.9	23.9	9.6	3.3
47.	Bell Canada	8.8	14.9	-17.6	1.0	50.2	-4.2	-5.6	10.7
48.	American Express	75.1	24.3	33.2	42.6	57.2	70.2	94.0	73.2
49.	Hiram Walker	2.9	31.2	-	-	-	-	-	-
50.	Wardair	66.0	-4.1	175.1	63.6	-	-	-	-
	All Advertising in Canada	10.9	19.6	13.0	14.4	13.3	27.4	13.6	17.9

SOURCE: See Table 34.

TABLE 36

TOTAL TELEVISION ADVERTISING EXPENDITURES IN CANADA
BY LEADING TELEVISION ADVERTISERS IN 1977
CANADIAN OR FOREIGN CONTROL, 1974 - 1977

($000's)

	CANADIAN EXPENDITURES			
	1977	1976	1975	1974
Foreign Control				
Procter & Gamble	15,905	15,425	11,505	10,283
General Foods	15,709	12,451	9,011	8,170
Bristol-Myers	7.960	6,321	5,591	4,727
Warner-Lambert	7,882	7,554	6,227	6,001
Kraft Foods	7,089	5,727	4,313	3,785
General Motors	6,357	7,576	5,736	5,130
Kellogg-Salada	6,145	5,832	4,848	4,423
Lever Bros.	6,113	3,389	3,229	2,718
Whitehall Labs.	4,855	4,506	3,821	3,505
Colgate-Palmolive	4,762	5,165	4,932	6,064
Total 1-10	82,777	73,946	59,213	54,806
S.C. Johnson	4,503	3,439	2,482	3,890
Coca-Cola	4,270	4,299	2,201	1,850
Ford	4,213	2,375	1,707	1,634
Johnson & Johnson	3,922	3,438	3,094	1,934
McDonalds	3,899	2,647	1,902	1,636
Standard Brands	3,702	4,037	2,641	1,380
Beecham	3,291	2,338	2,322	1,839
Gillette	3,085	3,138	3,082	2,990
Sterling Drugs	2,732	2,857	2,496	2,966
Imperial Oil	2,658	2,448	2,208	1,980
Total 11-20	36,275	31,016	24,135	22,099
Nestle	2,554	1,856	1,672	1,734
Simpsons-Sears	2,271	1,634	1,194	1,248
Campbell Soup	2,262	2,788	2,251	2,053
Union Carbide	2,212	1,827	1,641	1,333
Nabisco	2,207	1,854	1,665	1,422
Scott Paper	2,171	2,462	1,603	1,588
Playtex	2,158	1,362	1,057	1,187
F.W. Woolworth	2,157	2,463	1,716	1,215
Pepsi-Cola	2,104	1,952	1,597	1,152
American Express	2,092	1,331	782	403
Total 21-30	22,188	19,529	15,178	13,335

TABLE 36 (cont'd)

	CANADIAN EXPENDITURES			
	1977	1976	1975	1974
Foreign Control				
Philips	2,069	1,971	1,629	983
Lipton	2,054	1,950	1,116	791
Noxzema	1,947	1,771	1,209	1,561
Gulf	1,938	2,279	2,397	1,815
Wrigley	1,861	1,638	1,550	1,152
TMX	1,798	1,633	1,327	943
Chrysler	1,787	858	200	506
Heinz	1,731	1,361	1,169	875
Richardson & Merrell	1,634	1,097	998	968
Quaker Oats	1,584	887	1,172	627
Total 31-40	18,403	15,445	12,767	10,221
Total	159,643 (42.3)	139,936 (42.0)	111,293 (42.6)	100,461 (43.7)
Canadian Control				
Government of Canada	8,727	6,736	2,891	2,532
Molson	5,327	4,727	3,965	3,819
John Labatt	4,966	3,197	2,819	2,516
K-Tel	4,761	4,516	4,372	3,643
Carling O'Keefe	4,440	4,589	3,199	2,412
Eaton's	3,570	2,901	1,589	1,380
Canada Packers	2,845	2,869	2,254	1,921
Hudson's Bay	2,814	3,192	2,369	889
CN	2,795	1,530	536	327
Trans-Canada Telephone	2,171	2,028	663	704
Total 1-10	42,416	36,285	24,657	20,143

TABLE 36 (cont'd)

	CANADIAN EXPENDITURES				
	1977		1976	1975	1974
Canadian Control					
Quebec Government	2,159		2,414	1,635	1,472
Irwin Group	2,119		1,700	1,263	1,539
Bell Canada	1,874		1,248	1,303	1,381
Ahed Music	1,844		591	193	-
Rowntree-Macintosh	1,785		2,061	1,177	
Dominion Stores	1,761		1,188	1,316	707
Home Shoppe	1,716		-	-	-
Tee Vee Records	1,699		699	704	322
CIBC	1,521			1,440	
Canadian Pacific	1,501		870	1,445	1,269
Total 11-20	17,979			10,476	
Total	60,395	(16.0)		35,133 (13.4)	
Total-Above	220,038	(58.42)			
Grand Total	377,119		332,804	261,165	229,973

SOURCE: See Table 34.

TABLE 37

TOTAL TELEVISION ADVERTISING EXPENDITURES IN THE U.S.

BY LEADING TELEVISION ADVERTISERS IN CANADA UNDER FOREIGN CONTROL IN 1977

1974 - 1977

($000's U.S.)

	U.S. EXPENDITURES			
	1977	1976	1975	1974
Procter & Gamble	329,602	339,156	261,199	234,484
General Foods	212,788	195,436	136,583	125,474
Bristol Myers	133,169	120,427	110,290	98,842
Warner-Lambert	82,273	79,844	62,310	61,322
Kraft Foods	49,436	45,129	38,235	36,436
General Motors	117,438	99,039	69,104	78,208
Kellogg	58,866	47,408	43,033	35,704
Unilever[1]	104,271	97,456	80,440	81,057
American Home Prod.[2]	143,780	130,960	115,240	111,705
Colgate-Palmolive	85,979	79,328	67,497	76,468
Total	1,317,602	1,234,183	983,931	939,700
S.C. Johnson	30,116	34,395	30,925	34,432
Coca-Cola	45,357	46,788	40,078	39,028
Ford	94,069	78,229	65,995	60,316
Johnson & Johnson	52,944	37,383	31,181	29,145
McDonalds	95,709	79,839	57,544	46,753
Standard Brands	18,051	18,029	19,843	11,808
Beecham	-	n.a.	n.a.	n.a.
Gillette	58,322	66,226	61,254	55,360
Sterling Drugs	57,997	57,641	57,368	68,410
Exxon	19,603	17,610	14,187	10,588
Total	472,168	436,140	378,375	355,840
Nextle	57,425	47,357	36,022	29,697
Sears, Roebuck	102,276	80,314	73,761	66,386
Campbell Soup	27,957	36,793	24,919	17,160
Union Carbide	14,113	17,386	12,406	9,308
Nabisco	75,132	69,972	60,992	42,659
Scott Paper	17,925	16,842	13,246	13,412
Esmark[3]	44,313	n.a.	n.a.	n.a.
F.W. Woolworth			12,289	12,941
Pepsico	75,392	62,286	41,056	35,250
American Express	19,340	13,738	11,862	10,194
Total	415,948		286,553	237,007

TABLE 37 (cont'd)

	U.S. EXPENDITURES			
	1977	1976	1975	1974
North American Philips	23,909	21,071	14,347	11,475
Unilever				
Noxell	25,564	20,222	15,503	16,529
Wrigley	19,877	35,046	25,204	15,600
Chrysler	50,745	59,424	45,470	33,354
Heinz	34,174	24,233	16,754	15,399
Richardson & Merrell	42,265	32,867	20,685	15,617
Quaker Oats	35,008	24,350	21,810	30,596
Total	231,542	217,213	159,773	138,570

SOURCE: Advertising Age, May 1975, May 1976; August 1977, August 1978. In turn, the original source data are Leading National Advertisers, Broadcast Advertisers Reports.

NOTES: [1]Also includes Lipton.

[2]Also includes Boyle-Midway.

[3]Also includes Swift & Co., Estech Inc., and Vickers Energy.

TABLE 38

TELEVISION ADVERTISING TO TOTAL ADVERTISING RATIOS

BY LEADING FOREIGN-CONTROLLED TELEVISION ADVERTISERS IN CANADA IN 1977,

U. S. AND CANADA, 1974 - 1977

	Canadian ratios				U.S. ratios			
	1977	1976	1975	1974	1977	1976	1975	1974
Procter & Gamble	96.2	96.1	96.1	95.4	92.7	93.6	95.1	95.6
General Foods	91.3	94.7	94.3	86.0	85.2	86.8	91.2	89.0
Bristol-Myers	84.4	73.2	76.5	78.5	81.2	78.9	82.4	81.3
Warner-Lambert	96.2	96.2	91.3	92.4	91.7	89.9	93.0	96.9
Kraft Foods	71.9	66.4	64.4	64.4	63.9	72.9	73.1	73.2
General Motors	63.1	69.1	66.7	60.9	49.9	48.6	66.6	67.8
Kellogg	88.5	86.4	86.3	93.4	88.8	87.4	93.1	95.0
Lever Bros.	99.7	95.6	93.9	87.2	90.4	92.3	93.8	93.6
Whitehall Labs	89.8	91.0	92.3	91.9	91.6	90.2	95.6	94.5
Colgate-Palmolive	91.0	92.7	81.0	88.5	90.1	84.2	86.0	86.6
Total								
S.C. Johnson	98.7	98.3	98.7	99.9	77.5	87.4	94.1	95.8
Coca-Cola	73.2	58.4	49.6	61.3	76.9	76.0	95.6	93.8
Ford	51.2	31.0	46.6	37.0	59.8	59.3	79.3	79.9
Johnson & Johnson	94.1	86.5	82.1	77.2	79.7	81.8	85.0	85.1
McDonalds	80.4	72.6	76.4	76.6	97.1	96.5	95.3	95.0
Standard Brands	75.7	83.3	62.2	59.2	64.4	68.2	78.2	72.8
Beecham	79.0	73.2	71.0	65.0	n.a.	n.a.	n.a.	n.a.
Gillette	94.5	92.8	92.8	97.0	90.5	93.4	92.4	91.2
Sterling Drugs	84.5	82.0	76.5	70.4	82.7	85.4	89.8	85.8
Imperial Oil	71.4	66.2	66.5	64.5	67.2	66.5	70.8	71.6
Total								
Nestle	75.2	73.0	69.6	71.4	81.1	81.0	93.6	91.1
Simpsons-Sears	66.7	62.6	64.0	73.6	68.7	78.8	88.8	83.2
Campbell Soup	74.8	81.9	88.7	81.3	69.8	74.8	82.6	72.0
Union Carbide	81.8	83.9	78.1	96.5	73.4	76.4	76.6	76.1
Nabisco	64.6	63.0	66.0	73.7	90.8	90.5	95.2	94.0
Scott Paper	83.0	80.7	80.7	86.8	88.4	86.2	92.8	94.1
Playtex	94.0	94.9	87.5	90.8	n.a.	n.a.	n.a.	n.a.
F.W. Woolworth	80.6	95.1	98.4	94.6			99.1	98.6
Pepsi-Cola	64.2	64.1	68.8	71.9	90.1	87.4	96.7	93.7
American Express	71.6	79.8	58.2	40.0	67.9	65.0	71.7	73.9
Total								

TABLE 38 (cont'd)

	Canadian ratios				U.S. ratios			
	1977	1976	1975	1974	1977	1976	1975	1974
Philips	85.2	87.5	85.0	80.4	85.6	83.6	81.6	81.1
Lipton	98.4	91.2	91.9	69.4				
Noxzema	93.2	86.9	88.7	85.4	78.9	82.0	88.4	86.4
Gulf	60.8	69.1	73.8	62.0				
Wrigley	92.4	87.6	83.7	75.8	65.2	72.1	93.6	95.1
TMX	95.8	96.1	84.5	74.7				
Chrysler	31.3	16.6	6.0	17.0	52.1	61.2	85.2	74.8
Heinz	88.3	89.6	86.7	87.6	90.3	89.9	91.3	77.2
Richardson-Merrell	78.8	85.4	85.8	84.2	88.0	87.1	87.3	83.9
Quaker Oats	60.7	64.6	66.6	73.0	72.6	75.5	86.9	82.6
Total								
Total - Foreign Control								
Grand Total	55.8	54.6	51.3	51.0				

SOURCES: See Tables 35 and 37

TABLE 39

PROPORTION OF TELEVISION ADVERTISING EXPENDITURES
SPENT ON NETWORK TV IN CANADA AND THE U.S.
BY LEADING FOREIGN-CONTROLLED CANADIAN TELEVISION ADVERTISERS
IN CANADA IN 1977, 1974 - 1977

	Canadian Expenditures				U.S. Expenditures			
	1977	1976	1975	1974	1977	1976	1975	1974
Procter & Gamble	66.4	67.8	60.2	61.2	67.2	57.0	61.8	62.2
General Foods	39.0	41.7	40.0	44.4	66.6	66.0	61.8	61.0
Bristol-Myers	22.0	28.0	25.8	26.7	85.8	85.3	81.3	77.9
Warner-Lambert	37.4	34.4	32.7	32.0	75.5	67.4	75.9	79.5
Kraft Foods	9.5	12.5	15.4	16.7	42.7	39.6	54.0	63.8
General Motors	35.2	47.2	63.7	58.2	77.2	72.6	79.3	73.5
Kellogg	65.0	66.2	64.7	59.2	70.7	68.2	70.0	63.6
Lever Bros.	28.7	5.4	0.0	0.0	65.6	61.9	59.2	55.5
Whitehall Labs.	57.9	61.0	53.0	48.6	75.4	74.4	70.9	71.0
Colgate-Palmolive	61.2	55.1	57.4	51.5	59.5	52.5	68.3	57.0
Total								
S.C. Johnson	45.2	43.0	44.0	46.6	86.7	80.2	85.0	89.4
Coca-Cola	1.4	3.3	12.2	1.2	39.9	37.9	38.2	44.4
Ford	34.0	30.2	3.6	0.0	70.2	63.9	69.1	66.3
Johnson & Johnson	42.2	48.9	44.4	12.1	91.7	91.4	79.5	85.3
McDonalds	2.7	0.0	1.7	0.1	39.0	40.5	40.0	39.1
Standard Brands	47.4	45.6	36.8	34.5	71.3	49.0	32.1	44.2
Beecham	46.1	7.4	11.5	29.4	n.a.	n.a.	n.a.	n.a.
Gillette	55.6	44.8	46.0	41.4	79.6	78.2	76.2	82.0
Sterling Drugs	43.9	59.1	54.1	40.2	84.9	78.3	81.5	88.9
Imperial Oil	65.5	28.6	14.1	13.2	80.5	76.1	86.8	97.9
Total								
Nestle	19.9	23.1	25.5	28.2	62.2	67.8	61.4	70.1
Simpsons-Sears	19.5	1.4	1.4	2.0	78.5	71.1	69.7	63.4
Campbell Soup	44.9	41.6	44.0	25.4	71.9	52.9	58.2	65.4
Union Carbide	22.1	18.3	15.4	15.1	95.5	89.7	87.3	87.7
Nabisco	18.8	19.8	26.7	18.1	83.9	79.3	80.3	75.6
Scott Paper	36.3	21.8	19.9	5.6	24.6	42.8	41.5	56.2
Playtex	22.9	22.5	24.6	16.0	n.a.	n.a.		
F.W. Woolworth	47.6	43.9	33.2	14.8			4.6	0.9
Pepsi-Cola	0.1	0.2	0.0	0.5	46.6	44.0	47.7	55.8
American Express	23.8	33.9	24.7	15.1	73.6	61.8	55.9	44.0
Total								

TABLE 39 (cont'd)

	Canadian Expenditures				U.S. Expenditures			
	1977	1976	1975	1974	1977	1976	1975	1974
Philips	8.4	11.3	22.9	9.4	50.0	52.0	62.6	69.5
Lipton	17.4	10.6	0.0	0.0				
Noxzema	74.4	84.2	88.2	80.5	85.0	73.3	52.5	60.0
Gulf	4.9	0.0	0.0	2.1				
Wrigley	1.0	17.0	21.2	27.3	3.5	3.3	7.1	6.1
TMX	71.3	91.1	95.0	93.6				
Chrysler	34.9	10.5	14.5	94.3	65.1	44.9	76.8	67.1
Heinz	12.6	14.9	15.2	5.5	84.6	53.8	54.3	56.3
Richardson-Merrell	27.6	36.7	25.4	30.6	81.1	74.7	78.4	85.4
Quaker Oats	0.0	5.2	5.7	4.0	51.5	54.2	60.1	48.3
Total								
Total - Foreign Control								
Grand Total	23.8	25.4	24.8	23.8				

SOURCES: See Tables 35 and 37.

TABLE 40

ANNUAL RATES OF GROWTH IN AIR TIME SALES,
OF PRIVATE STATIONS, REGIONS, MAJOR AND OTHER MARKETS,
1974 - 1977
(%)

	Local			National			Network			Total		
	77 - 76	76 - 75	75 - 74	77 - 76	76 - 75	75 - 74	77 - 76	76 - 75	75 - 74	77 - 76	76 - 75	75 - 74
Canada	16.7	20.3	23.2	21.1	24.6	19.8	6.8	22.9	13.8	17.4	23.0	19.7
Atlantic	8.7	16.8	18.2	21.9	20.8	17.6	4.3	41.6	6.0	12.3	23.6	15.1
Quebec	13.3	24.9	24.9	13.0	21.5	13.7				12.2	22.7	17.8
- Montreal	13.5	30.1	22.1	15.4	22.2	12.6	6.1	19.7	3.1	14.1	25.2	15.5
- ex. Montreal	13.0	17.4	29.0	9.2	20.4	15.6	5.0	21.6	19.9	9.6	19.6	21.0
Ontario	3.6	-5.3	8.1	19.2	24.6	23.2				14.7	19.4	17.9
- Toronto	-18.8	-7.1	26.4	22.4	33.2	32.7	-2.5	40.3	-11.7	19.0	30.4	29.6
- ex. Toronto	10.9	-4.7	3.1	11.8	7.6	8.1	4.6	18.8	11.4	9.3	8.0	7.8
Manitoba/Saskatchewan	16.8	38.9	28.6	23.6	47.4	10.4				17.1	39.4	22.0
- Winnipeg	16.6	73.4	19.9	29.4	100.2	6.6	0.2	27.6	0.6	22.3	81.5	10.8
- ex. Winnipeg	16.8	28.1	31.6	17.6	16.1	12.8	8.7	29.8	34.0	14.6	25.2	26.4
Alberta	21.6	26.3	42.3	29.4	27.2	22.3				21.3	22.4	28.9
- Edmonton/Calgary	20.4	33.9	66.5	30.1	28.7	55.9	0.8	-13.9	10.7	23.4	28.3	56.8
- ex. Edmonton/Calgary	23.8	13.5	14.2	27.9	24.7	-11.6	6.4	11.0	17.1	18.5	15.4	7.1
B. C./Yukon	54.0	34.2	24.2	49.0	19.2	23.9				45.1	26.2	24.3
- Vancouver	86.2	45.2	25.0	64.2	28.4	14.9	21.8	37.2	4.3	66.1	33.1	16.1
- ex. Vancouver	25.3	25.7	23.6	13.5	2.3	45.0	25.4	32.3	32.6	21.7	19.4	33.7

SOURCES: Table 21 and internal DOC reports.

TABLE 41

MEDIA ADVERTISING COST INCREASES IN THE U. S.,
1974 - 1978

	1977 - 1978 Increase (%)		1977 - 1978 Annual Rate of Increase	
	Rate	CPM	Rate	CPM
TV - Daytime Network	17.2	14.8	18.6	17.8
- Evening Network	12.8	11.3	13.7	11.5
- Spot	-5.1	-6.6	6.8	5.2
Radio - Spot	10.2	8.6	10.2	8.7
- Network	14.9	13.9	9.8	8.4
Newspapers	7.8	7.6	10.8	11.4
Supplements	10.1	10.1	9.7	8.9
Magazines	10.2	7.4	6.7	4.5
Outdoor	7.0	5.9	8.2	7.1

SOURCE: Broadcasting, February 6, 1978.

NOTE: These estimates are based on units of 30 seconds for TV, 60 seconds for radio, four-colour pages for magazines, 1,000 lines black and white for newspapers, black-and-white pages for supplements and 100 showings for outdoor Audience levels and CPM's are based on women 18+ for daytime network, total persons 12+ for evening network, TV households for spot TV, persons 12+ for network and spot radio, adults 18+ for magazines, total population for outdoor and circulation for newspapers and supplements. CPM figures for spot TV are based on Bates' own experience; for network TV, on Nielsen reports. Tables show trends in index form, with 1970, as base year, at 100. The number by which any subsequent year exceeds or falls below 100 is that year's percentage of increase or decrease from 1970. Figures for 1977 expenditures and all 1978 figures are Bates' estimates.

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